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Mid Term Review of the Sixth Plan
and
Mid Year Review of the Economy 1982

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Malcolm S. Adiseshiah

MADRAS INSTITUTE OF DEVELOPMENT STUDIES
79, SECOND MAIN ROAD, GANDHINAGAR, ADYAR
MADRAS 600 020

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A Mid-Year Review of the Economy- 1982

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Prolegomena

These notes aim at a mid term review of the Sixth Plan and a Mid-Year Review of the Economy.

The mid term review of the Plan is being undertaken in advance of the conclusion of the exercise currently underway by the Planning Commission. This part of the note therefore rests on published data - published by the Central Statistics Organisation, the Planning Commission, the ministries of the Union government, the Reserve Bank of India, and governmental statements in parliament. It will therefore have to be supplemented and in some parts modified and corrected when the Planning Commission's mid term review becomes available. Except for some of the parliamentary statements, all other data is available in published form with a time lag extending ordinarily from three to six months and to that extent some of the base material is dated, and the projections undertaken on that base are capable of varying results, depending also on the methodology used and the quantities assumed. The Planning Commission review having access to the most recent unpublished data will suffer to lesser extent from this infirmity.

The mid year review of the economy is similarly based on official data, supplemented by linear projections in some cases, multidimensional forecasts in others, and guessestimates in still others. Though being written at near the mid year point in the second half of August - the firm data are, in most cases, available only for the first 3 months of the financial year, 1982-83. Beyond that there are the year's targets established by the government and the varying assessments of current trends on which the year's economic review is based.

There was the option of trying to fit in the mid year economic review into the mid term plan review, or to present the two reviews consecutively, one after the other. The former would have had the advantage of not only continuous reading of the short term and medium term functioning of the economy, but also of one being a kind of cross check on the other. On the other hand, the issues that enter into the two reviews are not either numerically or substantively the same. There would have been a certain forcing of the contents and analysis of the two reviews if there had been an attempt to merge or sandwich them. Some of the important short term issues such as the question of the recession faced by some industrial sectors, or the credit squeeze so called of the current busy season, as well as the recently announced revised 20 point programme are not germane to the medium review of the economy or the functioning of the Plan at this mid term. Hence it has been decided to keep the two reviews separate, while cross checking the major configurations in the interest of consistency. The defect in this approach is that a certain amount of repetition becomes unavoidable. I have tried to keep such repetition to the minimum.

I Mid-Term Review of the Plan

Growth Rate

The Sixth Plan sets forth an annual rate of growth of 5.2 per cent of the Gross Domestic product. For the first year of the Plan, 1980-81 CSO reports that National income increased by 7.7 per cent and the Annual Plan for 1982-83 of the Planning Commission reports that GDP for that year increased by 7.5 per cent. This high growth rate was very largely due to the low base of the previous year (1979-80) when the change in the national income registered -5.4 per cent and GDP -5 per cent from the preceding year. For 1981-82 the National income growth is estimated at 4.8 per cent and GDP growth 4.6 per cent[1], due to the good performance of the infrastructural industries, power, railway and coal, and the sector of manufactures and mining. For 1982-83, on the basis of the analysis of the economy during the year that is undertaken later, it is estimated that National income will

increase by 2.5 per cent and GDP by 2.3 per cent, due in part to the high base of the previous year, and the stagnant rate projected for agriculture. This means that at this mid year point, the average annual rate of GDP growth is 4.8 per cent and national income is 5 per cent. This is below the targeted rate by 0.4 per cent of the Gross Domestic Product. At this point, the economy during the first half of the Plan is doing better than the trend rate of the Five Plan periods and the 1966-67-68-69 Annual Plans at 3.5 reported by Sixth Five Year Plan[2] or of the average annual growth rate of the 50s which was 3.8 per cent, of the 60s which was 3.5 per cent, and the 70s which was 3.3 per cent. Whether the growth rates performance at this mid Plan point is a minor fluctuation around the trend rate of 3.5 per cent or will result in raising the trend rate for the eighties will be known only at the end of the Seventh Plan*.

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* In view of the fact that the growth rate of GNP in the reference year 1979-80 was negative, these figures and those in subsequent paragraph relating to the first two or three years of the Sixth Plan are somewhat misleading. They represent not the performance of those years, but the recovery from the deep decline of 1979-80. This can be shown by looking at the growth performance of the period 1978-79 to 1981-82. In current prices GNP over this four year period increased by 50 per cent. But there was also a price increase of 51 per cent, indicating that the growth of GNP in constant prices during 1978-79 to 1981-82 was stagnant, if not marginally negative.

The per capita GDP growth rate targeted in the Sixth Plan (table 2.1) is a high 3.28 per cent, and a per capita consumption growth rate of 2.79 per cent in 1984-85. It is high in relation to the trend of the National income per capita rate between 1950-51 and 1978-79 that is established at 1.3 per cent and the per capita consumption rate at 1.1 per cent. In the first 3 years of the Sixth Plan the per capita GDP rate is estimated at 5.3 per cent 1980-81, 2.8 per cent in 1981-82 and 0.4 in 1982-83, giving an annual average of 2.83 per cent which is below the 1984-85 target, but seems to be moving towards it. In this area, four issues need to be noted. First like the GDP rate, the per capita GDP rate is influenced by the high rate registered for the first plan year on the basis of the very low performance of -7.5 per cent (even lower than the -5.4 GDP rates) for the previous year 1979-80. Second the Sixth Plan projections of per capita GDP for 1981-85 were based on the estimates of population growth of the Registrar General in 1978 which the 1981 census showed to be an under estimate. The Sixth Plan assumed an annual population growth of 2.17 per cent in 1971-76 and 1.97 in 1976-81, when the 1981 census reports that the population growth for that period was 2.24 per cent. Hence the projections of an annual population growth of 1.79 per cent for the greater part of the Sixth Plan has to be corrected as done earlier. Third the per capita GDP and per capita consumption rates of the Sixth Plan are based on a population of 672 millions in 1981. The 1981 census reports that the population in 1981 was 684 millions which must be used to correct the Plan's population and per capita assumptions. Fourth the trend rates of annual population growth for the period 1950-51 to 1981-82 is 2.13 per cent, of per capita national income is 1.4 per cent and per capita consumption rate is 1.26 per cent. While the annual rate of population growth has been increasing from 1.91 per cent in the fifties, to 2.24 per cent in the sixties, to 2.25 per cent in the seventies, per capita national income has been declining from 1.8 per cent in the 50s, to 1.2 per cent in the 60s, and 1.0 per cent in the 70s, as did per capita consumption rates at 1.75 per cent, 1.23 per cent and 0.8 per cent respectively.

Resource Mobilisation

The Sixth Plan makes the orthodox statement that "Planning involves generation, distribution and utilisation of productive assets. The generation of physical assets takes place through private and public institutions. So does the generation of financial resources which are a counter part, so to say, of the process of creation of physical assets". It places the aggregate resources needed for the execution of the Sixth Plan at Rs.172,210 crores (comprising an investment outlay of Rs.158,710 crores and current development outlay of Rs.13,500 crores) at 1979-80 prices. The investment outlay is to be financed through domestic savings of Rs.149,647 crores and foreign resources inflow of Rs.9063 crores. Of the aggregate outlay of Rs.172,210 crores, Rs.97,500 crores is allocated to the public sector and the balance of Rs.74,710 crores to the private sector.

Of the proposed Sixth Plan public sector outlay of Rs.97,500 crores, the first year, 1980-81, Plan expenditure was Rs.14,778 crores[3], the second year 1981-82 revised Plan expenditure was Rs.18,187 crores[4], and the third year 1982-83 Plan outlay was Rs.21,082 crores[5]. This leaves Rs.43,453 crores of the public sector outlay to be allocated during the fourth and fifth years of the Plan, which is feasible except for some short fall, because of the possibility of transfer of some part of the outlay from the public to the private sector.

On the private sector investment forecast by the Sixth Plan at a total of Rs.74,710 crores for the Plan period, including private corporate sector investment in mining and manufacturing of Rs.15,182 crores (table 3.9), the only available information is the volume of assets formation in the non financial private corporate sector reported by the Reserve Bank of India. Here what is reported is gross assets formation, which includes addition to gross fixed assets, increase in inventories, increase in investments and increase in cash and bank balances which the RBI estimates at Rs.3389 crores for the first year 1980-81[6], and CMIE projects at Rs.4500 crores to

Rs.5324 crores for the second year, 1981-82, and Rs.5200 crores to Rs.5929 crores for the third year, 1982-83[7]. The rather wide range in the projections for 1981-82 and 1982-83 represent the varying quantifications of the shift in government policy towards the private sector, as set forth in the budgets for 1981-82 and 1982-83, the 1980 industrial policy statement, the 1981 import policy and the 1982 amendments to the MRTP Act. If this trend of gross assets formation of the private corporate sector during the first 3 years of the Plan is also followed in other private sector investments including agriculture, the target of private sector investments is likely to be met during the Plan period.

This analysis of the public sector expenditures and outlays and that of the private sector does not allow for the 30 per cent rise in whole sale prices, including the 18 per cent rise in the prices of investment goods and industrial inputs that have or will have taken place by March 1983. One study estimates that the public sector outlay for 1982-83 is short of this norm by Rs.2300 crores on account of inflation[8]. If the investment goods and industrial inputs deflator[9] is used, then the public sector outlay at 1979-80 prices at this mid term point is not Rs.54,047 crores but Rs.45,900 crores; and on the assumption that no further inflation takes place in the last two years, will require for that period a further public sector outlay of Rs.53,293 crores (and not Rs.43,453 crores noted earlier), which assumes a rate of resource mobilisation which is not feasible. There are similar short falls representing the 18 per cent investment/industrial inputs inflation rate that characterises the private sector outlay during the first 3 Plan years. Hence at this mid term point, it may be concluded that the 18 per cent erosion in the Plan outlay that has taken place in the first 3 Plan years means that even if the financial targets are met, the physical assets/achievements will be short of the targets by varying amounts, averaging between 15 to 20 per cent.

A second consideration is the extent to which the sources of financing assumed in the Plan have in fact operated in regard to the public and private sector outlays in the first 3 years of the Plan.

For the public sector expenditures, in 1980-81 the first year's resource mobilised by the union and the state governments were about Rs.1600 crores short of what was estimated due to lower contribution of the central public enterprises, high non plan loans to them and higher defence expenditures at the union level, and the failure to fulfil resource mobilisation targets as well as the sharp decline in contribution from the electricity and transport services at the states level. This resource short fall of Rs.1600 crores was met by increasing the union budget deficit by over Rs.1000 crores, and RBI accomodation to the states for the balance. For the second year, 1981-82, there was a decline in the estimated balance from the current account of Rs.400 crores at both the central and state level due to rise in non expenditures (DAs and pay revision etc) which was made up by contributions from ONGC, railways and additional resource mobilisation, so that aggregate resources equalled the revised Plan expenditures of Rs.18,187 crores. For the third year 1982-83, there is a realistic estimate of a lower balance in current revenues and capital receipts amounting to -Rs.750 crores, while from additional resource mobilisation measures during the three years Rs.2500 crores are estimated for the union and Rs.1500 crores by the states, plus higher contribution from central enterprises at Rs.615 crores and higher market borrowing of Rs.400 crores. In terms of financing, therefore, at this mid term point, there is a short fall in the sources of financing the approved level of plan expenditures and outlays at the current prices, which are being met by increased union deficits, RBI accomodations and increased market borrowings.

On the sources of finance of that part of the private sector outlays - the gross assets formation in the non financial private sector - as outlined earlier, the information provided by the Reserve Bank of India (Vol. I p13) is that for the first year, 1980-81, the Rs.3389 crores were financed through Rs.1098 crores for depreciation provision, Rs.973 crores as retained profits involving aggregate internal resources of Rs.2071 crores, and as external sources, capital raised including debentures of Rs.106 crores, borrowings from banks and term lending institutions of Rs.115 crores, sundry creditors and other dues

Rs.3 crores and tax provision Rs.54 crores, totalling Rs.1318 crores. For the second year, 1981-82, CMIE estimates internal sources at Rs.2400 crores (retained profits Rs.1,100 crores and depreciation Rs.1300 crores) and external sources at Rs.2400 crores (capital raised including debentures Rs.500 crores and borrowing Rs.1900 crores - Rs.1650 crores from banks and term lending institutions and sundry creditors and others Rs.60 crores). For the third year, 1982-83, internal financing sources total Rs.2795 crores (retained profits Rs.1345 crores and depreciation Rs.1450 crores) and external financing totalling Rs.2405 crores (capital raised Rs.330 crores, banks and term lending institutions Rs.1775 crores and sundry creditors and others Rs.300 crores). Looking at these private sector financial sources at this mid term point, certain weaknesses may be noted. One is that retained profits which ought to be larger than depreciation are smaller, and the inadequate level of the internal financial sources which nevertheless constitute the major part of total private sector financing because of the low rate of capital formation which ought to be double that at 10 per cent. On external sources, the bank source which is an important source of credit, is tending to decline because of the increasing rate of bank credit to government, the increasing diversion of credit to priority sectors which is now near 40 per cent, the slow down in deposit growth from 20 per cent in the 70s to 15 per cent, the heavy CRR and SLR requirements, the 20 per cent of credit allocated to the public sector, leaving some 10-15 per cent of bank funds to the private sector, compared to their access in the fifties and sixties to about half of bank credit.

In fact at this mid term point serious attention is demanded concerning the inadequacy of the banks, the term lending institutions, the LIC, UTI and cooperatives and the capital market to finance the Plan outlays in constant real terms, including meeting the increased demands which inflation creates in regard to the working capital funds needs of companies, the funding of buffer stocks of foodgrains, jute, cotton and now sugar (requiring an annual Rs.3000 crores), the growing credit needs of the agricultural sector as well as the housing and export sectors, and the countering of the technological absolescence and the

financing of the modernisation of major industrial sectors - such as jute, tectiles, engineering etc. Further a new area of growing importance is that of consumer durables, such as TV sets, air conditioners, washing machines, pressure cookers, watches, fans, two wheelers, as well as tractors and commercial vehicles which form 20 per cent of GDP in industrialised countries, and which are developing fast in this country at 4 per cent of GDP currently, and which is very heavy on credit needs both at the manufacturing and even more at the post manufacturing stages, for which other countries have developed a variety of credit institutions including hire purchase facilities, instalment credit, leasing, debentures market etc. A similar deepening of credit institutions in this country is therefore an urgency. The problem of the "credit squeeze" is a long term structural problem. 60 per cent of Plan funds flow to the public sector which contribute only 20 per cent of the national output. Not only is 20 per cent of bank credit but all of post office and provident fund savings are channelled into the public sector, which does not use the credit optimally as will be seen later. Also there is the problem of the need to coordinate the financing activities of the banks which are responsible largely to meet the working capital needs of the public and private sectors with that of the term lending institutions which finance the fixed assets needs of the sectors.

One further comment on the resource mobilisation issue of the Plan which refers back to the opening words of this section, referring to financial resources being the counterpart to the creation of physical assets. The financial outlays of the first 3 years of the Plan have increased by an annual average of 15 per cent but the machinery, industrial infrastructure, andinputs, and intermediate goods - what the Plan document describes as productive assets have increased at an annual average of 4.8 per cent. In the emphasis placed by the Plan on resource mobilisation and of diverting as much of financial resources to the public and private sector, inadequate attention is paid to the end product of the resource mobilisation exercise, which is the volume

of productive assets created. The relation between mobilising financial resources at the average annual rate of 15 per cent and creating with them productive assets at the rate of less than five per cent points to (a) the problem of the poor and worsening incremental capital output ratios of the production apparatus and (b) the inflationary impact on investment goods at this mid term point.

Physical Targets and Achievements

The Sixth Plan infrastructure at this mid term point records a growing gap between targets and achievements in key areas.

Electricity Starting with electricity, against the 1984-85 generation target of 191 billion units, the 1980-81 achievement was 119 billion units, 1981-82 130 billion units and the 1981-82 target is 140 billion units. There will be a short fall in generation of atleast 30 billion units at the end of the Plan. Similarly against the Plan target of adding 19,666 MW to the generating capacity, even the first 3 years targets at 9384 MW do not add to 50 per cent of the Plan target, and the actual additional capacity created in the first two years and the first quarter of the current year 1982-83 was 4998 Mw. This means, in the creation of additional generating capacity, there will be a slippage of atleast 2500 Mw from even the modest targets for the first 3 years. The situation with regard to transmission and distribution is even more grim. In 1980-81 the target for 400/200 KV transmission scheduled for completion was 5918 Kms of which 3915 Kmswere attained, in 1981-82 the target was 8697 kms of which only 2743 kms were attained, which means that in the first two years there has been a slippage of about 60 per cent, and which may in part explain the comic situation of UP, a chronically power deficit state, sending out in June distress signals to the union government to divert surplus power - 300 Mw thermal and 200 Mw hydel-to neighbouring states, and as this could not be done in the absence of transmission lines to close down the Singrauli super thermal plant. Power generation has improved in each of the first 2 years by 10 per cent from the low 1979-80 base, which in part accounts for the good industrial performance of 1981-82. But supply is short of demand by around 12 per cent

and in view of the slippages reported above will increase to 15-18 per cent by the end of the Plan. Even the limited increase in power production in the second year has required a 11.5 per cent of the Plan outlay (a decrease from the 18 per cent of the first year), and a sharp step up to 14.5 per cent in the third year, with consequent reductions in outlays in other sectors.

Coal The coal target for 1984-85 is 165 million tonnes and here the sector is doing well and will be only marginally short of the target. For the first year 1980-81 the target of 113.5 million tonnes was attained at 114 million tonnes. For 1981-82 the target of 121 million tonnes was surpassed at 125 million tonnes, and for the third year 1982-83 a target of 133.5 million tonnes has been set and for the first quarter the government reports a production of 25.7 million tonnes. Even if the target is reached, the problem is that the supply for this year at 133.5 million tonnes will be 6 million tonnes short of demand. The same imbalance will be there at the end of the Plan at 3.4 million tonnes as the Plan document points out (para 15.58). There was a Rs.300 crores increase in the third year's outlay, from 3 per cent of the total plan outlay in 1981-82 to 4 per cent in 1982-83.

Crude and petroleum products The crude target for the first 3 years of the Plan amount to 14.75 million tonnes, 16.84 million tonnes and 20.95 million tonnes respectively, with 1984-85 set at 21.6 million tonnes (Annexure 15.5 of the Plan document), since revised upwards to 27.02 million tonnes. The crude output was a low 10.52 million tonnes in the first year 1980-81, (due to the agitation in Assam and the North East), was marginally lower than the target for the second year 1981-82 at 16.2 million tonnes, and reports in the first quarter indicate that the target for the third year of 20.95 million tonnes will be achieved. On the petroleum products, the first 3 years output is increasing from 24.03 million tonnes in 1980-81 to 35.99 million tonnes estimated for the current year, against the unrevised 1984-85 target of 41 million tonnes. There are two issues to be noted here. First the rate of increase of petroleum products consumption at an annual average

of over 6 per cent which jumped to 10 per cent in 1981-82 and an anticipated 12 per cent in 1982-83 is indefensible, and needs attention in view of the serious foreign trade deficits that face the country. There seems to be no policy on petroleum conservation as indicated by the petroleum Conservation Research Association which, after a survey of 1200 industrial units, each consuming an annual 350 kilolitres of furnace oil, shows that through proper storage, temperature and burners, boilers and other instruments, the firms can save 3.9 lakh kilolitres a year and has demonstrated, similar savings of HSD by the transport sector. These economies should now become national policy. A second issue relates to the sharp stepping up of the Plan resources to the crude and petroleum sector from Rs.798 crores and Rs.999 crores in the first two years to Rs.1938 crores in the third year 1982-83, which was an increase from 5 per cent of total Plan funds in 1981-82 to 9 per cent in 1982-83. In fact the energy sector's share of Plan resources has increased from 27 per cent in 1980-81, to 28 per cent in 1981-82 , and to a sizeable 32 per cent in 1982-83. This increased expenditures and outlays aimed at reducing crude and petroleum products imports and provide the needed power for a 5 per cent growth of the economy has meant that other sectors' outlays particularly the social and anti poverty programmes have had to be reduced, as will be seen later. In this connection, the ONGC's 10 year Plan currently under study by the government envisages a first variant under which by 1989-90 46.5 million tonnes will be produced, calling for an outlay of Rs.23,940 crores (involving Rs.21,579 internal and Rs.2361 external resources), and a second preferred variant under which 60.5 million tonnes will be produced requiring an outlay of Rs.28,995 crores (Rs.24,646 crores internal and Rs.4149 external resources). Apart from the decision to increase the Sixth Plan ONGC outlay from Rs.2873 crores to Rs.4000 crores (a 39 per cent increase), the reference to internal resources by ONGC means that it can raise these resources if the indigenous price for crude is raised to the international market price. That would have serious consequences for government finances (if there was a compensating lowering of the excise duty), and raise fuel costs steeply for industry and agriculture and consumers generally. On

external resources, in addition to the $200 million loan from the World Bank, the reference is to the Euro currency loan market.

Railways and roads The railways and roads performance at this mid term point should be measured against the Railways Plan target of 309 million tonnes of originating traffic in 1984-85, and the Roads plan targets of (a) 5550 kms of national high ways (to which strategic and inter state roads targets shouldbe added), and (b) linking 20,000 villages by constructing all weather roads. (Incidentally this latter target is based on the VI Plan statement that villages with a population of 1500 and above and 50 per cent of villages with a population of 1000-1500 which are without roads amount to 40,000,whereas the NSS (28th round) reports that at the end of March 1978 out of 5.76 lakh villages in the country, 4 lakh villages were not connected by all weather roads and 3.15 lakh villages were unconnected by any type of road). The railway target for originating traffic (revenue and non revenue) for the first year 1980-81 was 246 million tonnes and the achievements was 219 million tonnes (a 10 per cent short fall), for 1981-82 the target was 240 million tonnes and the actual was in excess at 243 million tonnes, and for the third year, 1982-83, the target is 250 million tonnes, raised in August to 255 million tonnes. The railways report in the first quarter of the current year, April-June, 1982 the originating revenue earning traffic carried was 54.81 million tonnes against the target of 55.50 million tonnes. The attainment of the current year's target may be affected by the demand slackening faced by the fertiliser, steel, pig iron, textile machinery, and trucks and commercial vehicles industries among others, on the one hand, and the slow and in some cases non replacement of worn out tracks, wagons and locomotives, on the other. This is one of the sectors whose financing is being held down to allow for the erosion in Plan resources and the increases being provided to some sectors like power referred to earlier. For the railways, the third year (1982-83) outlay is the same as the expenditure for the second year at Rs.1137 crores. There is a case for the Planning Commission's mid term appraisal providing an additional Rs.300 crores to this sector for the balance of the Plan.

On the road sector, the modest national highways targets are being achieved except for a 15 per cent short fall in the first year. With r egard to rural roads 6800 villages are reported to have been linked by roads in the first two years and the third year target is reduced to 2600 villages. This again is one of the sectors where the outlay is being reduced to provide resources for the core sector. Against the Plan outlay of Rs.1165 crores, the first three years outlay was Rs.585 crores, with the second year expenditure being Rs.11 crores below the target.

Irrigation The Sixth Plan target is an additional 5.6 million hectares of major and medium irrigation works, and 8 million hectares of additional minor irrigation area. In the first year, 1980-81, the combined target was 2.50 million hectares, of which the achievement was 2.46 million hectares, the short fall being in the major and medium irrigation category. In the second year, the combined target was 2.50 million hectares, and the actual achievement for that year was 2.26 million hectares, the short fall again being in the major and medium irrigation group. For 1982-83 the target is 2.35 million hectares. The problem here is not only that the major and medium irrigation target is unlikely to be achieved (the short fall is likely to be 10.15 per cent), but of the serious problem of time and cost over runs. 48 major irrigation projects face a time over run of five years or more, and 31 projects a cost escalation of 500 per cent - the most serious being Nagajunasagar, Gandak, Kosi, Taura and upper Krishna. It is for this reason that the Plan strategy as stated in the Plan document is "expeditious completion of as many on going major schemes as technically and financially feasible (amounting to 66 projects) as the first directive, and to start action on a few selected projects only for keeping up the VII Plan development tempo". These directives do not look as if they are being executed as of at this mid term point.

A similar assessment may be made in regard to some industrial sectors and agriculture.

Saleable steel In regard to steel production, the lag between installed capacity, target and actual output characterises the first 3 years of the Plan. In 1980-81 in saleable steel the capacity was 11.18 million tonnes, the target 8.82 million tonnes and actual production 7.81 million tonnes. In 1981-82, the capacity continued at 11.18 million tonnes, the target 8.77 million tonnes and production 8.80 million tonnes. In 1982-83 capacity is reported at 12.37 million tonnes and the target set at 9.54 million tonnes; of which the SAIL plants target is 6.47 million tonnes. For the first quarter April-June 1982-83, SAIL reports that its plants produced 1.25 million tonnes and that due to serious power shortage, they produced 4.27 lakh tonnes against the July Plan of 5.03 lakh tonnes. It looks unlikely that the year's target will be attained. If the target is attained, steel imports could be considerably reduced and the trade deficit to that extent cut. The Plan public sector outlays and expenditures on steel have been relatively stagnant in money terms during the 3 years at Rs.805 crores, Rs.768 crores and Rs.859 crores , which corrected by the investment deflator of 18 per cent means a declining investment over the 3 years. Even in money terms, the percentage of public sector outlay on steel in relation to the total outlay has declined from 6 per cent to 4 per cent. Hence if the Plan targets of capacity of 14.30 million tonnes and production of 11.51 million tonnes are to be realised, there will have to be a considerable stepping up of the outlay (about 15 per cent) in the balance of the plan period.

Non ferrous metals In the area of non ferrous metals, only lead has in the first two years surpassed the target with a capacity of 18000 tonnes and a target of 13000 in 1980-81 and 11000 tonnes in 1981-82, the actual production being 15000 tonnes and 14000 tonnes respectively. For 1982-83 the target has been raised to 15000 tonnes. In others, there is the usual gap between capacity, targets and production. In the case of aluminium with a constant capacity of 321,000 tonnes in the first 3 years of the Plan and a target of 250,000 for each of the 3 years, the production has been 199,000 tonnes in 1980-81 and 207,000 tonnes in 1981-82. The gap between capacity and actual

production which is around 120,000 tonnes is due to the power shortage which limits production by BALCO, HINDALCO & MALCO, and in particular BALCO's Korba aluminium complex lying unused for 5 years due to the non commissioning of a number of its units, and only 60 per cent of the remaining capacity being used. On top, the aluminium industry is facing a problem of imports being much cheaper because of the steep decline in world aluminium prices. In the case of copper, against a capacity of 47,500 tonnes, the targets in the first three years are 27,000 tonnes, 32,500 tonnes and 37,000 tonnes and the production was a respectable 25,000 tonnes in 1980-81 and 28,000 tonnes in 1981-82. Zinc, however, records serious gap between capacity which is 92,000 tonnes in each of the first 3 years, the target at 70,000 tonnes each year and production 45,500 tonnes in 1980-81 and 58,000 tonnes in 1981-82. In the case of these four basic metals, the attainment of the Plan target of 300,000 tonnes of aluminium, 50,000 tonnes for copper, 85,000 tonnes for zinc and 25,000 tonnes for lead does not call for additional investment resources but provision of adequate, continuous power and improved management.

Cement Among other important industrial items, cement records an increase in capacity from 27.5 million tonnes in 1980-81 to 36 million tonnes in 1982-83, a low and gradual increase in targets at 20, 22.3 and 26 million tonnes, and a still lower production at 18.6 million tonnes in 1980-81 and 21 million tonnes in 1981-82. The constraints are the usual power, coal and transport facilities, which lead to imports which are one item which can be eliminated from the import basket, if production is increased.

Basic chemicals In basic chemicals, sulphuric acid is operating at less than 60 per cent of capacity and 80 per cent of its target, and calcium carbine at 40 per cent of capacity and 70 per cent of its target in the first two Plan years. This is attributed by the Plan to market constraints, whatever that may mean.

Fertilisers In nitrogenous fertilisers, the capacity at 4.57 million tonnes in 1980-81, 4.72 million tonnes in 1981-82 and

and 5.3 million tonnes in 1982-83 seems to have no relation to the annual targets at 2.2, 3.2 and 3.6 million tonnes and apparently are related to the low production of 2.1 million tonnes in 1980-81 and 3.1 million tonnes in 1981-82, so that a 90 per cent attainment of the target can be reported. It is the same story with phosphatic fertilisers where the annual production target is fixed at 2/5 to 2/3 of capacity and in 1981-82 the actual production at 949,000 tonnes is above the target of 925,000 tonnes. The Annual Plans admit that the public sector fertiliser units have performed poorly. And at this rate of growth the gap between demand at 6 million tonnes for nitrogenous and 2.3 million tonnes for phosphatic fertilisers and the domestic production at 4.2 million tonnes and 1.4 million tonnes at Plan end which is to be met by costly imports might be even wider than forecast.

Food products On food products, sugar was a low 5.15 million tonnes in 1980-81 against a low capacity of 6.3 million tonnes, but in 1981-82 production at 8.6 million tonnes exceeded capacity of 6.6 million tonnes and so too for 1982-83 as a forecast. This is one case, where thanks to high domestic price and bountiful cane harvests, the mid term production at 8.6 million tonnes is in excess of the Plan end production figure of 7.64 tonnes. The problem here is that the excess sugar cannot be freely exported, because its price is not internationally competitive and its export involves a government subsidy. This applies also to the Plan export target of 600,000 to 1 million tonnes (table 9.5). The other food products vanaspathi, is targeted at Plan end at a modest 900,000 tonnes, and in the first 3 years, production averages 816,000 tonnes, which means that the target will be met. The problem in this area is threefold. First for the Plan period a large amount, Rs.2920 crores, has been set aside to import edible oils. The extent to which these imports are being made available to the vanaspathi industry at the low imported prices, the fact that not only are these low import prices not passed on to consumers, but theprofiteering in which the industry indulges on the basis of these imported oils results from its price ranging between 25 to 35 per cent above the controlled price need attention. Second and related is the very wide gap between the installed

capacity in this industry and actual production. The gap ranges between 40 and 45 per cent. Third the vanaspathi plan target and that for edible oil imports are related to the oil seeds programme which against a Plan end target of 130 lakh tonnes has averaged in the first 2 years at 105 lakh tonnes per year, and for the third year targeted at 118-120 lakh tonnes. If to this is added the oil seeds strategy being executed under the revised 20 point programme (to be dealt with under the mid year review), then the imports of edible oil should decline in the last 2 years of the Plan, with some much needed relief to our large trade deficit.

Engineering One last industrial item to be reviewed is industrial machinery and electric power equipment. Here all 11 items under the former except two and all four items under electric power equipment record an increase in capacity and production in the first two years, and continues the increase in terms of targets of capacity and production for the year 1982-83. The two exceptions are rubber machinery which records a steep decline from Rs.10.2crores in 1980-81 to Rs.6.7 crores in 1981-82. Even the target of production for 1982-83 at Rs.10 crores is lower than the 1980-81 production of Rs.10.2 crores, which in real terms was about 22 per cent higher than the1982-83 target. The other exception is paper and pulp machinery whose 1981-82 production at Rs.33.5 crores was lower than the production in 1980-81.at Rs.36.8 crores. There is a marginal rise in money terms in the production target at Rs.38 crores for 1982-83.

Agriculture The agriculture growth rate for the Sixth Plan is nominally set at 5.20 per cent which is adjusted to 4 per cent as the effective rate, allowing for the poor performance in the drought year base 1979-80 (table 2.9)... As a result of the sharp decline of agricultural production in that year by-18 per cent, agricultural production in 1980-81 which was a normal year, shot up to 15.4 per cent. Nothing can be learnt from this distorted picture because the production in that year was 129.9 million tonnes, while in 1978-79 it was 131.9 million tonnes. In the second year of the Plan, 1981-82, when the monsoon

was good for the second year running, on the basis of the 1982-83 Plan document report achievement figures, agricultural production increased by 4 per cent. The Plan document in terms of targets sets the agricultural production growth rate at 5 per cent for 1982-83, whereas another study[10] sees the possibility of there being no rise - a stagnation - at about the same production level as in 1981-82. In terms of trends, agricultural growth is slowing down: if the Plan trend for agricultural growth of 2.8 per cent compound is taken (97), then the realised rate is 3.5 per cent during the fifties, 2.6 per cent during the sixties and 2.4 per cent during the seventies: alternately the study referred to above places the annual agricultural growth rate compound at 3.3 per cent in the fifties, 2.3 per cent in the sixties and 2.2 per cent in the seventies. What is disturbing about both the official and the non official scenarios is that agricultural production is on the one hand decreasing, while agricultural inputs are increasing - taking just the fifth Plan, by 5.8 per cent in gross irrigated area (on which since the First Plan Rs.10,023 crores have been spent), by 9 per cent in pumpsets installed, by 6.8 per cent in terms of area under High Yielding Variety of seeds, and 12.5 per cent in fertiliser use. There seems to be little relation between the increase of inputs and that of outputs in agriculture, if any the relation is the obverse, which takes us back to the high ICOR in agriculture, as in manufacturing as noted earlier, but also raises the question of the need to supplement the so called Green Revolution strategy by proper water and soil use, dry land farming and what the VI Plan document calls public policies in land reform, pricing, procurement and distribution. Finally the agricultural growth trend at present, whether it be 2 or 2.2 or 2.4 per cent, is not very much above the rate of growth of population as made known by the 1981 census.

Within this declining agricultural growth rate, the food grains situation is particularly disturbing. The Plan end target is 153.6 million tonnes. The pre Sixth Plan drought year saw a sharp decline in food grains production to 109.7 million tonnes and so for the first year of the Plan, 1980-81, against the target of 135 million tonnes, 129.9 million tonnes

were produced, the growth rate of food grains for that year is distorted at 18.4 per cent. Not only should this growth rate be adjusted as the Planning Commission does to 3.1 per cent, but also as the Commission's latest review points out the divergence between the target and actual production at 5.9 million tonnes is disturbing[11]. For the second year 1981-82, the foodgrains production target was 138.5 million tonnes and the Annual Plan for 1982-83 refers to an anticipated production of 132-133 million tonnes, while the Commission's latest review places the production at 131 million tonnes. This means that the gap between the target and production may be wider at 5.5 to 7.5 million tonnes, with the growth rate at the middle estimate of 132 million tonnes being a low 1.5 per cent. For 1982-83 the target has been established at 139-141.5 million tonnes, and with the very late and unevenly distributed South West Monsoon this year, leaving many districts facing drought (as of August end, 269 districts had normal and 59 districts deficient to very deficient rainfall) the production may be the same or less than that of 1981-82, The growth rate may then be nil or a minus quantity. The Planning Commission's review referred to above points to the 20 per cent increase in fertiliser consumption in 1981-82 over 1978-79 and concludes that this increase has had "no visible impact on production". This is a slight understatement because with 20 per cent less fertiliser use, 1978-79 produced 131.9 million tonnes food grains against the estimated 131-133 million tonnes in 1981-82. There are several issues that arise in connection with our food grains production. First, as pointed out in connection with agricultural production, the problem of increasing inputs of fertilisers, irrigation and HYV and stagnant or decelerating food grains output needs review by our agricultural scientists. Second the population rate is growing at a higher rate than the growth of food production in the second and third year of the Plan and more disturbing, the trend rate of food grains production growth is now lower than the population growth rate. In fact the longer term analysis of the trend of growth of food grains production is disturbing. Between 1961-62 to 1970-71 foodgrains production increased at an average of 2.6 million tonnes a year from 82.7 million tonnes to 108.4 million tonnes. From 1970-71 to

1975-76 it increased at the same 2.6 million tonnes from 108.7 million tonnes to 121 million tonnes, which was a lower growth rate, as the base was higher. From 1975-76 to 1981-82 the average increase fell to 2.1 million tonnes from 121 million tonnes to 131 million tonnes, which means an annual rate of increase of 1.5 per cent (which is even less at 0.75 per cent during the 3 years 1978-79 to 1981-82), while population is growing at 2.25 per cent. This has serious implication for population policies and the family planning efforts of the country. Third there has been a drastic decline in food stocks from 18 million tonnesiin March 1979 to 10.8 million tonnes in March 1982 or from 21.5 million tonnes in July 1979 to 12 million tonnes in July 1982. The review of the Planning Commission admits that this is a potential sources of instability, because "except in an exceptionally bumper year, procurement of foodgrains normally averages just the requirements of the public distribution". This structural imbalance again needs investigation as is the tradition that has been built to regard procurement not as including building buffers, but simply as a price support operation. It is hoped that the Planning Commission and the concerned ministries will, with the help of economists and scientists,study carefully these inter related issues and propose corrective remedies. As I write this first part of the note in mid July, my short term conclusion is that for this year we need to import food grains to build our buffer and prevent speculative and normal price rises in food grains. My estimate is that we should when food grains prices are relatively low, import 5 to 10 million tonnes of food grains, and, as I have in another place[12] pointed out, pay for it in part by the export of rice in which we have a comparative advantage.

Balance of Payments

The area of Balance of Trade and Payments is one area where the Plan targets and projections have been completely negatived in the first 3 years of the Plan, and will be for the balance of the 2 years. The Plan projected an annual growth of exports volume at 9 per cent from Rs.6240 crores in 1979 to Rs.9878 crores in 1984-85, resulting in a trade deficit which would rise gradually from -Rs.2370 crores in

1979-80 to -Rs.3972 crores in 1984-85 totalling for the 5 years -Rs.17773 crores - all at 1979-80 prices. On actual performance, exports increased by a low 3.7 per cent in 1980-81, by 8.2 per cent in 1981-82 (the Annual Plan estimates it at 14 per cent), and will be at an estimated 14 per cent if the target for 1982-83 is reached - at current prices. But as the Annual Plan for 1981-82 points out in volume terms exports growth in 1981-82 (even at the unrevised figure of Rs.7700 crores which later corrections brought down to Rs.7358 crores) increased at 6.7 per cent. In the first two years of the Plan, the growth rate of exports in current prices averaged 6 per cent against the Plan target of 9 per cent in constant prices. Imports increased by 28 per cent in 1980-81, by 5 per cent in 1981-82 and will by 6 per cent in 1982-83, if the import target is not exceeded. For the first two years, the import growth averaged 16 per cent well above the 7.9 per cent targeted in the Plan. The import growth rate is moderating to about 5.5 per cent in the second and third Plan years. The balance of trade deficit is, however, over two third of the VI Plan total in the first two years and will be just less than Rs.1000 crores short of that total during the first 3 years, if the 1982-83 targets referred to above are kept. Taking into account the joint projection of the government and IMF, the total trade deficit will amount in VI Plan to - SDR 42,453 millions or over Rs.45,000 crores which is more than double the total trade deficit foreseen in the Plan.

The country's net terms of trade which had been rising between 1970-71 and 1972-73 and again showed a rise in 1977-78 has been dropping in the intervening years, most sharply in 1974-75 by 29 points (26.4 per cent) and in 1979-80 by 24 points (26.6 per cent) as follows:

Year	Quantum Index		Unit value index		Net terms of Trade
	Exports	Imports	Exports	Imports	
1970-71	106	87	06	100	106
1971-72	107	105	08	93	116
1972-73	120	99	20	97	124
1973-74	125	114	46	138	106

1974-75	133	100	183	239	77
1975-76	147	111	197	280	70
1976-77	174	97	210	278	76
1977-78	168	130	236	249	95
1978-79	180	140	234	260	90
1979-80	199	135	236	360	66

Source: DGCI Calcutta

The 1980-81 and 1981-82 data are not yet available but given the export-import trends and the higher cost of POL imports and the decline in the value added exports, the deteriorating terms of trade in 1980-81 and 1981-82 are expected to continue. Taking 1978-79 as the base, the government estimates that the loss due to the terms of trade deterioration was of the order of Rs.2419 crores[13]. This is serious and demands corrective action at the national and international levels.

The Balance of Payments situation has similarly moved far away from the Plan targets and projections. For the five years period, the Plan projected a current account deficit of -Rs.9063 crores (-Rs.17773 crores on trade and +Rs.8710 crores on invisibles) and Rs.9063 crores on capital account including net aid, the IMF extended loan facility (which I have included) and drawal on foreign exchange reserves which is limited to Rs.1000 crores. The actual performance of the economy has been: a current account deficit of -Rs.5700 crores in the first two years 1980-82, and on the basis of agreed projections by the IMF and government of India will be -SDR 11,651 millions or -Rs.11,900 crores for the remaining 3 years of the Plan, which is a little less than double the projected current account deficit in the Plan. On capital account, the balance in the first two years of the Plan amounts to Rs.3841 crores and will be Rs.6200 crores for the balance of the three Plan years on the basis of the government of India/IMF projections. The drawal of reserves in the first two years at Rs.1914 crores is near double what the Plan forecasts for the entire 5 year period, and the overall balance computed by the government and IMF for the Plan period is -SDR 7867 million or -Rs.8300 crores.

On the trade deficit, the various export promotional measures taken by the government in the first 3 years of the Plan - the expansion of OGL, cash incentives, duty drawbacks and free imports for 100 per cent export oriented units etc - have passed beyond the optimal point in terms of not yielding even the 9 per cent growth in the volume of exports targeted. In view of the fact that export growth so far in real terms is two thirds of the modest target, there are obviously considerable leakages in and misuse of the various incentives and concessions offered to promote exports, which call for a detailed review of these promotional measures. On the imports side also there is need for drastic reorientation. The official repeated explanation for the growing deficit in the foreign trade balance is "the rise in international prices of crude and petroleum ...to Rs.5650 crores in 1980-81 compared with only Rs.1677 crores two years ago" (para 1.9 of the Annual Plan 1981-82), "the second massive oil price hike in 1979 (which) persisted during 1981-82" (para 1.16 of the Annual Plan 1982-83). This is in part true and our only response on this account has been the intensive effort to increase domestic crude and petroleum production, with almost no effort to curb the rate of growth of consumption of these products. A national policy on economising and conserving these resources can result in an annual saving of 10 per cent of the year's consumption, as pointed out earlier. Equally relevant is the need to review the so called liberal import policy which was conceived of in the years (1977-79) when we had an embarassing increase in our foreign exchange resources and reserves. Now with the large and growing trade deficits facing the country, we need to cut needless imports, needless in the sense that we can produce these items with our existing equipment and know how. It has been estimated[14] that in some twelve important items - steel, aluminium, copper, zinc, lead, fertilisers, paper, newsprint, cement , soda ash, viscose staple fibre, polyester fibre - if production was at the 100 capacity level in each, Rs.1997 crores can be saved in imports, or alternately if production is at the maximum level that each industry attained in the last 10 years, Rs.917 crores can be saved. The need to turn around our import policy is now widely recognised and should be acted upon.

Then there is the question of external resources that we are relying on to cover our balances of payments deficits. The annual bilateral loans on concessional terms which amount to some Rs.1200 to Rs.1500 crores net is tending to decline, with the reduction in IDA resources and the entry of China to share in its limited resources. And then there is the IMF extended fund facility arrangement, under which SDR 5 billions is available (SDR 900 million drawn till June 1982, SDR 1800 million to be drawn between 1 July 1982 and 30 June 1983 and SDR 2300 to be drawn between 30 June 1983 November 1984) to provide balance of payment support over the 3 years during which "the structural adjustments are to be made to narrow the trade gap" as the 1982-83 Annual Plan states. In the use of this loan by tranches, the government of India as much as the IMF should review the undertakings agreed upon at the time the loan was contracted. The areas which need review in light of developments during the year since the loan was contracted include monetary policy and credit ceilings, the question of administered prices and subsidies, the elimination/reduction of prices and distribution controls, the liberalisation of imports and the resort to higher interest rates.

In this connection with our reliance on external resources, the sudden spurt in borrowing from the international capital market, which is one of points of strong advocacy by IMF and the World Bank, deserves a comment. But it should also be noted that the Plan document after acknowledging "the paramount need to keep the country's indebtedness within limits and to maintain our ability to service foreigndebts" refers to the desirability of making "selective use of the opportunities of borrowing abroad, particularly for financing projects which have a high rate of return, and are able to strengthen our export capacity". (In addition to this criteria of a high rate of return which means at least 20 per cent, another norm should be that such foreign loans should finance projects which are foreign exchange saving (import substitution) or foreign exchange generating.) In just one year, 1981-82, loans from Euro-dollar market amounting to Rs.1030 crores for 30 institutions,

including 8 public sector institutions have been contracted, at rates of interest ranging from 17 to 18 per cent, with the repayments to be completed within 7-10 years. In the first three months of the current year 1982-83 a further Rs.318.9 crores have been raised from the Euro dollar market. Here two warnings are called for. First the burden of official debt servicing is rising steeply during the current plan. It was Rs.687 crores in the first year, 1980-81, Rs.837 crores in the second year 1981-82, and is officially projected at Rs.863 crores for the current year 1982-83. Debt servicing will rise steeply during the Seventh Plan, when the repayments of the IMF extended credit facility with its average 11 per cent interest will amount to Rs.11,000 crores, and the commercial loans whose repayments could amount to another Rs.11,000 crores at the end of the Seventh Plan - both the IMF and commercial loans are to be repaid within 10 years. This means that unless further commercial and World Bank borrowing on hard terms are restrained, there is a real possibly of our export earnings not being able to service our debt. Even our borrowings may not be able to cover the debt charges.

At present our debt servicing is in the form of deduction from the gross loans that we receive annually at concessional rates. By the end of the current Plan the gross loans will be very near our debt charges, so that we will be fulfilling the V Plan target of zero net aid, only in a reverse sense - that is instead of concessional loans being reduced to the level of debt service charges, we will be reaching a point where debt servicing will rise so high as to approximate to the annual total of concessional loans. In this situation the annual balance of payment deficit will have to be financed increasingly by drawing down on our foreign exchange reserves, which reached the high point of Rs.5220 crores in 1978-79 and began falling to Rs.5164 crores in 1979-80, to Rs.4822 crores in 1980-81, Rs.3250 crores in 1981-82 and a projected Rs.2500 crores in 1982-83. This is very different from the Plan projection that "at the end of the Plan, reserves as a proportion of total imports will not be lower than about 25 per cent". Already at the end of the third year, our reserves will have fallen to 17 per cent

of our imports, and it is essential that action should be taken to stop further drawals on our reserves in the coming two years.

This means that the current account deficit projected at Rs.11,900 crores for the current year and the two following years must be reduced by atleast half, if not more. The Planning Commission's review expresses this in stating that it is necessary "to devise on effective strategy to reduce the balance of payment deficit on current account from 2.4 per cent of the gross domestic product in 1981-82 to not more than 1 per cent in a period of about five years". My feeling is that this reduction should be effected in a shorter time span of 3 years. Increased exports through increased and improved production, countering the falling quality of exports, particularly our standard agricultural exports such as tea, coffee, oil cakes, cashew kernals and spices, which is reflected in the declining of their unit values, the further increase and diversification of manufacturing exports, which have a high income elasticity of demand, of which engineering goods, which will be rising at an average 22 per cent during the first 3 years of the Plan, can be further expanded by capital goods exports and projects moving faster towards its targets of Rs.7800 crores by the end of the Seventh Plan, and diversification of markets in facing the recession and protectionism in our traditional markets of Western Europe. All this should result in expanding exports by a further Rs.1500 crores a year, and to that extent reduce our balance of payment deficit on current account. In this connection, the plans to use foreign funds for export financing, in view of the shortage of rupee resources should be negatived, as that will simply add to our payments deficit and involve larger subsidy costs and currency risks. Without further complicating the many varied and sometimes conflicting directives given to banks that are turning them into amateurish development agencies, the rupee resources needed for export financing can and must be found, where there are real export expansion prospects. The reference to real export expansion refers to the doubts and questions about the effect on exports and production of the various fiscal concessions in operation - tax concessions, tax exemption of overseas profits, partial domestic sale of production of the fiscally favoured free trade zones units,

duty draw backs, cash compensation etc - which often result in switching existing production into export channels, and exporters purchasing turn over from one another to reduce tax liability. The need to cut back on imports to the extent of atleast Rs.1000 crores by replacing twelve needless items which can be domestically produced, and a further Rs.1000 crores through saving on crude and petroleum product consumption aand imports, have been suggested earlier. In addition the rate of growth of invisibles in the first two years - the income from shipping, insurance, remittances, banking/etc. has been declining from Rs.3158 crores to Rs.2652 crores, and is projected to decrease to less than Rs.2000 crores by the end of the Plan according to the government/IMF estimates, because, to take an example, as against the interest and banking receipts of Rs.360 crores in 1980-81, India will have to pay Rs.860 crores as interest on loans in 1984-85. Incidentally the incentives to increase the inflow of funds from non resident Indians has, I believe, reached a point where there is the problem of discrimination in this area that Indian resident nationals face. Hence the relief on the balance of payment front will have to come from the other factors mentioned. To sum up, I have proposed an extra Rs.1500 crores of export earnings and a cut back in imports by Rs.2000 crores as a means of reaching the Planning Commission target of the current account deficit being limited to 1 per cent of GDP.

Poverty

What has been the record at this mid term point with regard to one of the major objectives of the Plan - the progressive reduction of poverty and unemployment?

The Sixth Plan sets forth the base line and parametres of this objective. Starting with 51 per cent of people in the rural and 38 per cent in the urban areas, a total 48.13 per cent of the country's people living below the poverty line, it sets forth the target of bringing this aggregate percentage down to 30 per cent by the end of the Plan. Its further statement that there has been an improvement in the quality of life over the planning period, as seen

in the growth of per capita private consumption by 46 per cent between 1950-51 and 1978-79, and in the share of the poorest 30 per cent in consumer expenditure increasing from 13.1 per cent in 1958-59 to 15 per cent in 1977-78 in rural areas and from 13.2 per cent in 13.6 per cent in urban areas is open to question in view of the per capita availability of food grains having increased from 395 grams a day in 1950-51 to 455 grams a day in 1980-81, which is a 0.5 per cent growth, to which the distortions of the distribution system in favour of the not so poor must be added: similarly the per capita daily availability of pulses - which is the major source of protein for the people - actually declined during this period from 61 grams to 40 grams. Per capita daily cotton and blended and mixed frabrics consumption declined from 16.45 metres in 1965 to 15.25 metres in 1979 with the top 30 per cent consuming 25 to 35 metres per head, while the bottom 40 per cent consumed less than 3 metres per head(according to ICMF estimates to be referred to in detail later)[15], and as at March 1978 out of 5.76 lakh villages more than 4 lakh villages are not connected by all weather roads and 3.15 lakh villages are unconnected through any types of road - as noted earlier.

The Plan also traces poverty to the skewed distribution of assets ownership, where it refers to the all India debt and investment surveys in rural areas which report that the lowest 10 per cent of the people owned 0.1 per cent of assets in 1961 and 0.1 per cent in 1971, the lowest 30 per cent of the people faced a deteriorating situation with their share of assets declining from 2.5 per cent in 1961 to 2 per cent in 1971, and the top 30 per cent increasing their share from 79 per cent to 81.9 per cent. It points out that if poor households are "those with less than Rs.1000 of assets in 1961, or, to allow for inflation Rs.2500 in 1971, the percentage of such households increased from 30 per cent in 1961 to 35 per cent in 1971" - the assets being just the hut, some household goods and livestock. Small and marginal farmers(those operating less than 2 hectares) constitute 72.6 per cent of land holders and operate only 23.5 per cent of the cultivated land. It also acknowledges that the large increase in agricultural productivity brought about by the

"Green Revolution" , irrigation and the new seed - fertiliser technology, will not itself solve the problem of poverty. On urban assets ownership, it states that the fiscal instruments used to lessen inequalities in urban assets holding have been limited in their effect as a result of tax evasion and have in fact given rise to black money . The estimates of black money at this mid term point vary from 10 per cent to 50 per cent of the regular economy's gross domestic product - from Rs.10,000 crores to Rs.60,000 crores, which means that the parallel economy is sizeable and being outside all control and even knowledge makes planning, among others, some what partial - if not unreal[16]. The other urban instrument, the urban land ceiling Act has been a non starter. The only target established in the Sixth Plan in this area of unequal assets distribution is "a limited measure of land redistribution", namely "a redistribution of 5 per cent of the cultivated area from holdings above 5 acres to small farmers and agricultural labour households". There is no other programme proposed to right the skewed assets distribution in the country. But on this I wish to refer to/study[17] which points out that this 5 per cent target would mean redistribution of something like 57 lakh hectares which is about eight times of the 6.79 lakh hectares actually distributed in over three decades of planning.

In the field employment, against the estimate of 21 million persons being unemployed and 34 millions entering the labour force during the Plan period, the targets are to increase employment at 4.17 per cent per annum which is well in advance of 2.54 per cent annual growth of the labourforce. This means that employment will be increased by 34 million standard persons year (a standard person year is a person who works 8 hours a day for atleast 2/3 of the year) which will result either in providing full time employment to all the labour force entrants, or on the basis of part time employment, may also reduce the 21 million unemployment backlog.

Poverty alleviation in the form of various relief measures is operated through the Integrated Rural Development Programmed aimed at assisting 600 families below the poverty line per block in all 5011 blocks, and the Minimum Needs Programme covering elementary and adult education, health, water supply and roads, housing, nutrition etc. In the first year,

1980-81, the government reports that under the Integrated Rural Development programme 27.7 lakh families were assisted against the target of 30 lakh families, and during the second year 1981-82 27.06 families were helped against a similar target. For 1982-83 the target under the programme is 30 lakh families. The physical coverage is satisfactory, though the adequacy of the funds per family averaging Rs.750 during the first two years is in question. This makes the flow of bank credit into this programme which was Rs.199 crores in 1980-81 and Rs.462 crores in 1981-82 and was financing farming, animal husbandry, sericulture, poultry, piggery, fishery, forestry, rural industries and rural trades rather decisive. On the Minimum Needs Programme which is executed in the main by the states with the cooperation of the union, (in the ratio of 85:15), on the 10 items ranging from elementary education to urban slums and nutrition, the expenditure of Rs.894 crores and Rs.1005 crores in the first two years approximate their low targets. For the third year the target is still a low Rs.1121 crores. One study estimates that if we are really serious about relieving poverty, the Sixth Plan outlay for the rural development programmes should be raised from 38 per cent (Rs.36,930 crores) to 50 per cent (Rs.50,000 crores) of the public sector plan outlay[18].

On redistribution of assets ownership, there is only sketchy information based on replies made by the government to parliamentary questions. As at the end of December 1981, it is reported that out of 39.9 lakh acres, (updated in 1982 to 41 lakh acres) of declared surplus land, 26.5 lakh acres have been taken possession of, and 18.3 lakh acres (updated to 18.4 lakh acres) distributed to 13.22 lakh beneficiaries[19]. In this connection it is necessary to note that the Draft Plan 1978-83 using NSSrecords estimated the area of surplus land available for distribution at 22 million acres[20], so that what the government is now reporting on is about one fifth of the real surplus land. Even so not even half of the declared surplus has been distributed to the rural poor. In regard to the urban land ceiling Act, it is reported that at 1981 November only 3,229 hectares of vacant land has been acquired by the state governments[21]. On the allotment of house sites cum house construction for landless workers as at the

end 1981, out of 1.23 crores of eligible families, 82.81 lakhs have been allotted housesites, out of which about a quarter (24 lakhs) sites have been developed, and a little over half of what (13.3 lakh) have had house/huts constructed on the sites [22].

With regard to the employment record, in the first year 1980-81, under the National Rural Employment programme the employment generated was 326.5 million mandays, against the target of 300-400 million man days. In 1981-82 it declined to 30 million mandays against the target of 300 million man days, with a very deep cut in food grains released (3 lakh tonnes only), along with instructions that only one kg of food-grains may be given as wages, while the rest was given as cash. With the rise in foodgrains prices by 4 per cent during the year, this meant a cut in the standard of living of those employed on this programme. For 1982-83 the target is again 300-400 million man days. Employment Exchanges report an increase in the number of job seekers from 14.43 million in January 1980 to 16.2 million in January 1981 on to 18.0 million in April 1982. The government reports that the types of community assets created under the NRE programme was village roads, community parks, school buildings, irrigation and soil conservation work. Other employment generating programmes were the national scheme of training of rural youth for self employment (TYRSEM), under which about 3 lakh rural youth were trained for self employment, the drought prone and the desert development programmes, the rural roads and godowns, animal husbandry, and the village and small industry programmes comprising khadi and village industries, handloom, power looms, handicrafts, small scale industries and other such programmes aimed at generating employment. They are estimated at having created an additoonal 10 lakh jobs during the first two years of the Plan and producing assets of over Rs.400 lakhs in that period. In the organised sector employment generation in the first 2 years was 6.65 lakhs [23]. It must be noted that the information on employment generation at all levels is very sketchy and partial.

What does all this add upto in terms of the objective of lifting over 100 million people above the poverty line and generating 34 million standard person years of employment? There is no evidence that in the first two years that we are moving towards these rather precise targets. The IRDP and MNP are functioning but there is no annual measure of their effects available. In fact in the second Annual Plan for 1981-82, there are just two paragaphs about IRDP in the introduction and one short paragraph under rural development and cooperation, where outlays and targets are given and the number of families identified for IRDP aid during the first five months is reported as 10 lakhs and the number assisted less than half of that at 4.5 lakhs. There is no mention of the minimum needs programme. In the third annual Plan for 1982-83 there is a more detailed account of IRDP and TRYSEM and a chapter on the minimum needs programme. Again no analysis of the effects of these programmes in terms of the 100 million people who will cease to be poor is provided. One will have to wait for the next round of the NSS on consumer expenditure of different sections of the people to determine the precise effects of these programmes.

On redistribution of assets, it was noted earlier, that the Plan target is redistribution of a low 5 per cent of the surplus land. Whether any further land has been declared surplus and whether any land has been distributed during the first two years of the Plan is not known or reported. The annual expenditures and outlays at a little over Rs.50 crores are provided mainly as assistance to the new assignees. Under the prodding of the revised 20 point programme, for the first time, a physical target of 11.30 lakh acres is set as a target for 1982-83 as surplus land assumed for allotment along with 17.83 lakhs of housesites to be allotted and 5.91 lakhs to be provided with construction assistance. It is to be hoped that the worsening trend of assets distribution referred to earlier on the basis of the VI Plan document evidence will atleast be arrested.

On employment generation, there is the same lack of precise information on what are the results of NREP, KVIC and other employment

generating programmes, as is known in the case of public sector expenditures and private sector investment. There is need for machinery to be set up in the rural country side to collate and analyse the information on the employment situation in the rural areas, so that there can be a data base for employment policies.

In this situation, the decision of the Planning Commission to redefine poverty calls for a rather sharp comment. The Commission announces that it is engaged in redefining poverty, using a multi dimensional norm instead of the calories norm because (a) when incomes increase, the calories intake may not increase, as the increased income may go into clothing, or housing, or education, so that a simple income into calories formula will not measure the extent of poverty, (b) food habits differ between regions, the higher calories intake needed and used in a hilly region, for instance, does not reduce the poverty intensity of that area, and (c) the NSS rounds are incomplete as they leave out some sections like servants. Hence the commission states that it has chosen 186 items which have been classified into 11 heads, namely general welfare, education, health, agriculture, construction, transport and communication, rural development and cooperation, housing and other infrastructure and miscellaneous. On this basis, studies are being made at the district level, and three groups are at work in the commission on the concept of poverty, regional expenditure, employment etc. which will result in a document on poverty by the end of August. This document will be circulated to the states to elicit their reactions to it, and the document will be finalised in February-March 1983. This whole exercise is repetitive, trivial and dangerous ane unnecessary. It is repetitive because the reasons given for raising doubts about the calories norm and the manner of its application by NSS have already been very fully debated, far more seriously by nutritionists, statisticians and economists like Sukhatme, Bardhan, Sen, Minhas and research units like the Centre for Development Studies, Trivandrum and the devising of alternative measures of poverty has been undertaken by the Institute of Development Studies, Sussex, MIT, Cambridge, USA,

UNRISD, UNESCO, UNITAR, Geneva etc. This work of the Commission is therefore trivial because the grounds for replacing the present rough and ready measure does not appear serious, and is dangerous because it has given rise to the suspicion that the Commission is, through this method, trying to doctor the poverty statistics of the country to arrive at the magic figure of 30 per cent being below the poverty line in 1984-85*. Finally, it is unnecessary because instead of wasting time on statistical refinements of poverty and moving the poverty percentage by a few points, what is needed is (a) to analyse why poverty is so large and growing, and (b) to combat poverty through helping the generation of gainful employment as short term relief and assisting in reducing the skewed distribution of income and assets of the country which is the long term and basic cause of poverty. The number of the poor on the other hand is increasing. They were 302.76 million in 1978 and 316.84 million in 1980. This hard fact of India having the largest mass and growing mass of abjectly poor peopleo needs no further statistical proof. If anything, the commission's exercise may prove that the percentage of our poor is more than 48. If it results in a smaller percentage,then the methodology must be applied retroactively to show the poverty profile over three and a half decades of planning. I say this, because the non calories index, namely the Physical Quality of Living Index (PQLI) when applied to us by UNRISD and other outside research bodies shows that against a maximum PQLT score of 90, India is in the second last category of countries which has a score between 31 and 5, and in which only 4 countries or group of countries are below us - namely Nepal, Afghanistan, Laos and sub Saharan Africa.

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* See the two editorial of the Economic Times - Defining it Away? August 5, p5 and Games Planners Play, September 1, p7

II Mid Year Review of the Economy - 1982

Fiscal Policy

The fiscal policy for the year as set forth in the Union Budget for 1982-83 had many positive elements. As part of the year of productivity, it provided some incentives for increased and improved production, namely, the 5 year extension of the higher rate of investment allowance, extension of tax relief on dividends to production of basic drugs, synthetic rubber and rubber chemicals, 30 per cent additional depreciation on new energy saving and pollution minimising devices, the 10 per cent income tax relief on profits of export oriented companies whose exports increase is 10 per cent over that of the previous year, the liberalised 25 per cent sales within the country provision of free trade zones units, the abolition of the luxury hotels tax, the tax holiday on one forth of repatriated profits, and the special excise relief given to 36 items. These are helping the expansion of industrial production in the current year, though from the medium term point of view, the absence of an additional concession for countering obsolescence and replacing depreciating capital assets may be regretted. The budget aimed also at simulating savings, channelising part of them into public sector, including increasing tax exempt income ceilings of UTI and other investments, doubling tax exempt status of equity shares investment, the raising of wealth tax exemption for UTI and other investment, the capital investment bonds and the social security certificates. The personal income tax concessions are aimed at protecting the low and middle income groups. The proposed deficit is lower than that of the last year's at Rs.1365 crores, which in the course of the year, 5 months later, become Rs.3100 crores as a result of arranging for the union government taking over the states' deficit of Rs.2085.17 crores, which taking into account the monetary base of the economy, is well within permissible limits. The union government on July 1 announced that it has converted Rs.2085.79 crores of over drafts by the 17 states into medium term and long term loans as follows: (a) the closing deficits at the end of 1981-82 aggregating Rs.1743.26 crores are converted to term loans repaybale in 5 years for all states except 8 small and poor states for whom it will be 10 years.

(b) short term assistance to clear any additional deficits that the states may have generated between April 1, 1982, and June 30, 1982 to be adjusted during the year, and (c) doubling ways and means limits that the states have with RBI with effect from July 1, 1982 to provide a larger cushion against temporary imbalances between their receipts and disbursements. The sanction behind this arrangement is that any further unauthorised overdrafts will not be honoured by RBI. The problem pf the states' deficits is a complex one. It has a long history, In 1980-81 they owed RBI Rs.650 crores, which they repaid with 1981-82 resources, namely their share of union taxes, plan grants etc. and by the end of 1981-82 had accumulated a massive Rs.1743 crores deficit. Second the deficit is not taken seriously by the states and is taken as a question of numbers which can be juggled around. Third there are absent also the principles and norms to guide the financial relations between the union and the states, and till these are developed there will be no financial discipline either on the side of the state or on the side of the union, which has begun budgeting regularly for a deficit. Both sides must develop and keep norms of financial discipline. This is one important fiscal issue which the recently appointed eighth Finance Commission could look into and make binding recommendations on. The year's fiscal policy, in general, has been continuous with the past and makes no revolutionary change. The major criticism with the policy is the growing tendency of making some important fiscal decisions by executive decision, as in last year's decision on the hike in railway rates outside and before the budget presentation, followed by the rise in postal rates this year. Second though the intentions of the fiscal policy is to assist low and small income earners (as seen in the few changes in both direct and indirect taxes made in the budget), the tax concessions and savings incentives are at a level which can be used only by high income individuals and companies - and to that extent the total effect of the budget is regressive. Third the fiscal arrangements for the year assume an unreal increase in public sector returns by 58 per cent, from Rs.2467 crores to Rs.3657 crores, as the return in the previous year was only 0.2 per cent

and net profit Rs.412 crores. Fourth the total fiscal policy, which, unlike in countries like Denmark and Netherlands in Europe, Canada in North America and Australia in Asia, which have indexed their liabilities and concessions, not only makes no attempt to compensate for the continuing inflation rates in regard to the ceilings of tax exempted dividends and interests or wealth and gift tax exemption limits; but through the low deficits devised by diverting resources from private consumption of the poor and low middle class majority to the public fisc; through not countering effectively the looming higher balance of payments deficit; through concentrating so much of the year's Plan outlay on the energy sector which has little multiplier demand effects, along with the effects of the "credit squeeze" which is a carry over from the credit policy adopted last year; and through the promised rise in administered prices; has laid the basis for slackening of demand for industrial products, and the kind of inflationary contraction and stagflation which can set off recession during the year.

Prices

The movement of wholesale and consumer prices based on the whole sale price index and the consumer price index for industrial workers may be summarised as follows:

Year	Whole sale prices		Consumer prices	
	Annual Average	Point to Point	Annual average	Point to Point
1979-80	17.1	21.4	8.8	12.4
1980-81	18.2	16.7	11.4	12.6
1981-82	9	1.7	12.5	8.8
1982-83 (April-June)	3.5		April May 1.1	

In last year's mid year review[24], I had forecast that the whole price rise for 1981-82 would be between 10-12 per cent. The actual price rise has been less at 9 per cent, and on a point to point basis was a low 1.7 per cent for the year. At the start of the year 1982-83, whole sale prices recorded a zero rate of inflation. On the other hand consumer prices rose in 1981-82 a third higher than whole sale prices on the annual

average basis, and about 5 times higher on a point to point basis. For the current year, the whole sale price index after recording zero per cent rise in April has risen in May-June by 3.5 per cent, while consumer prices started their rise in April at 0.4 per cent and recorded a further 0.6 per cent in May.

There are a number of features of the price situation which need analysis. First there is the growing gap between whole sale and consumer prices during the last 4 years, which "the lag" theory does not explain. This gap is against the longg term trend from 1970-71 to 1981-82 when on an average basis the whole sale price index shows an annual rise of 9.8 per cent while consumer prices show an average annual increase of 8.4 per cent, and on a point to point basis the whole sale prices average, annual rate is 9.6 per cent and consumer's prices 8.6 per cent. It is from 1979-80 that the divergence between the two sets of prices become serious. The RBI in its annual report[25] ascribes this divergence to the usual time lag and to the fact that the all India consumer's price index in its composition, weight and geographical coverage is quite different from the whole sale price index - (consumer price index is based on price data in over 50 centres with differing commodities and weights such as food articles prices which have 30.70 per cent weight whereas in the whole sale price index their weight is 17.36 per cent, and includes services not included in the whole sale index which in its turn includes industrial raw materials and intermediates). This explanation is only partly true, because while the rate of consumer goods prices rise declined in the wholesale index between 1980-81 and 1981-82, this did not get reflected in the consumers price index, while the substantial rise in whole sale prices during this period was in intermediate goods whose administered prices rose, and these do not enter the consumer goods prices/index. Hence the real reason for the fact that the fall in the growth rate of whole sale prices was not reflected in the rise in rate of increase in consumer prices must be found (a) in the defective price transmission system, (b) in

the cost push force which operated more in the consumer price field (by rising administered prices and agriculture procurement prices) and (c) the black market operation of hoarding and speculating that the inflationary ethos induces.

A second issue in this connection is the question whether inflation should be measured by the wholesale or retail price index on answer. The 1980-81 Economic Survey seems to put forward the common sense point of view when it states that "ordinarily the consumer price index should be the indicator of inflation in the country"(p29). This conforms to the common sense view that what determines the well being and the real purchasing power of the money held by the mass of the people is the consumer price index. From this point of view, the continuing annual rise in the consumer price index means that the inflationary pressures have not eased for the common man in the country.

A third issue relates to the remarkable fall in the rate of increase in the whole sale price index by 50 per cent on an average basis and by 9 times on a point to point basis in 1981-82 compared to the whole sale price index in 1980-81. The basic reason for this sharp decline is that while the supply of goods and services - the gross domestic product - increased by 4.6 per cent over the high previous year's supply, the aggregate demand represented first by the money incomes of the community which for the poor majority fell by some 25 per cent as a result of the 2 year inflation, and second by the rate of increase in money supply which declined from 16.3 per cent in 1980-81 to 6.7 per cent in 1981-82. The increase in the supply of agricultural and manufactured goods during the year will be discussed later. On the demand side, the government's agreement with the IMF to reduce government credit from 34.2 per cent in 1980-81 to 20.1 per cent in 1981-82, 17.6 per cent in 1982-83 and 16.3 per cent in 1983-84 and to hold commercial credit at 18.6 per cent, 18.9 per cent and 18.1 per cent, resulting in total credit expansion being reduced from 24.6 per cent in 1980-81

to 19.4 per cent in 1981-82, anticipated 18.3 per cent in 1982-83 and 17.4 per cent in 1983-84 is the part explanation. It will be noted that the sharp reduction of the over 50 per cent in government credit which will be a function of governmental fiscal discipline has been a long standing demand of mine (see last mid term review p16). The instruments used for reducing credit were the increase in the cash reserve ratio from 7to 8 per cent (to 7.25 per cent in November, 7.5 per cent in December, 7.5 per cent in January and 8 per cent in February), but in view of the serious credit problems faced by the commercial sector in February stopped the move to 8 per cent and in June 1982 reduced it to 7.25 per cent, 7 per cent (and to 3 per cent for foreign currency deposits), the rise in the statutory liquidity ratio from 34 per cent to 34.5 per cent in September and 35 per cent in October 1981, and the raising of the cost of refinance and rediscount facilities. Hence credit expansion slowed down from 19 per cent in 1980-81 to 15.2 per cent in 1981-82 and to a projected 10.7 per cent in 1982-83. At the same time, as credit expansion slowed, there was a lower percentage expansion of deposits from 19.6 per cent in 1980-81, to 15.2 per cent in 1981-82 to an even projected lower 11 per cent in 1982-83. But the opposite relation is seen in the rate of increase of the credit deposit ratio from 65.2 per cent in August 1981 to 68.6 per cent in February 1982, which shows that deposits grew at a lower pace than credit, and as the Reserve Bank points out the total credit to the commercial sector grow in 1981-82 (credit expansion at Rs.3896 crores, if return of funds from the petroleum industry is included at Rs.4189 crores, and total bank credit to the commercial sector increased from 28.8 per cent in 1980-81 to 30.81 per cent in 1981-82). Thus to explain the falling rate of price increases in 1981-82, there is something beyond the limitation of credit and the slow growth of deposits that must be looked for and that is to be found in the rather severe deflationary effect that the large balance of payment deficit has had. This is seen in the decline in foreign exchange reserves reported by the RBI of Rs.1572 crores in 1981-82 and a projected further reduction

of about Rs.1000 crores in 1982-83 on my estimate.

Fourth the rate of whole sale prices rise which fell rapidly towards the last quarter of 1981-82 reaching zero at the start of the current year has started rising again. There is also a continued upward movement of consumer's prices. The government in parliament explains this rise as being due to seasonal factors. The Reserve Bank seems to concur in this explanation in ascribing the price rise to the rise in primary articles prices - cereals, pulses, fibres and oilseeds. However the price rise is attributable to the rise in administered prices of steel, coal paper, the decontrol of cement and sugar, and for the future, the rather sharp rise in the issue price of wheat announced on June 26, Rs.15 per quintal for rationed wheat and Rs.30 per quintal for roller flour mills, resulting from the rise in procurement prices. The credit squeeze has also pushed up the prices of metals, machinery and transport equipment to a higher rate than the rise in the general wholesale price index. The credit relaxation earlier referred to not only enables the commercial banks to meet seasonal credit needs but also removes all across the board cuts, and provides larger credit to industrial sectors which are in difficulty. The moral of all this is that while the credit relaxation by Banks to commercial sector was and is needed, the inflationary forces at work, including the growing parallel economy and the black money dealings, need careful watching.

Fifth the likely rate of inflation for 1982-83 may be estimated on (a) a trend basis where wholesale prices have increased by over 3 per cent in the first quarter and consumer prices by over 1 per cent in the first two months, (b) by matching the projected overall growth rate of GDP at 2.3 per cent against the expansion in money supply M_1 at 11 per cent that has been agreed with IMF and (c) allowing for the deflationary effect of the balance of payments deficit. Gross checking these three hypotheses, my estimate is wholesale prices during 1982-83 are likely to rise by 10 per cent and consumer prices at a slightly lower level at 9 per cent. This means that consumer price

rise will be equal to those of whole sale prices, particularly because of the higher growth rate in whole sale prices that is forecast, after the catching up that they did with consumer prices in 1981-82.

Agriculture

Agricultural production in the agricultural year July 1981 to June 1982 was earlier estimated to have increased to 132 million tonnes for foodgrains (1.5 per cent over 1980-81) and 204.67 million tonnes for non food grains (9.7 per cent), giving an estimated 4 per cent growth. For the year 1982-83, the food grains production is likely to be 130 million tonnes and non food grains 205 million tonnes, which means no increase in the agricultural production rate.

The actual performance for the current year will depend on the monsoons. On the 20th July, the government reported to parliament that the South West monsoon over Bombay was delayed by a week, its arrival over Central and Eastern India was also delayed by a week as at June 17, and that there were no rains between June 17 and July 5. The meteorological department reports that from 1st June to 30th June, 16 out of 35 subdivisions had normal rainfall and 19 subdivisions had scanty or deficient rainfall. The position further deteriorated, and upto 16th July only 9 subdivisions had normal rainfall, the deficiences in different parts of the country ranginf from 41 to 82 per cent. The states most affected are West Bengal (13 out of 16 districts), Rajasthan (24 out of 26 districts), UP (42 out of 54 districts), Punjab (11 out of 12 districts) and Haryana (8 out of 12 districts). Towards the end of July and in August some rains have occured and in September UP, Bihar, MP, Assam and Orissa have had heavy floods. This monsoon performance means that the kharif production will be lower than the targets of 56.5 - 58 million tonnes of rice, and 27 tonnes of coarse grains and pulses.

Rice A massive programme of 22,000 community paddy nurseries to make paddy seedlings available to farmers in unirrigated areas was completed in August, and with the available diesel and power, transplanting operations started after about 3-4 weeks of delay. UP reports that the delayed monsoon has damaged 12-13 per cent of the kharif crop.

The damage from the floods is yet to be assessed. It looks as if the rice output will be about 10 per cent short of the target. This is to be regretted, because, as noted earlier and in last year's review, the export of rice in which we have a comparative cost advantage which not only adds to our export income but can be exchanged for wheat imports in which we have a relative disadvantage and which we need, will have to be limited and will not reach the year's target of Rs.350 crores of exports.

Wheat The damage to the 1982 wheat rabi harvest as a result of the unseasonal rains in April & May has still to be finally assessed. For the present, the union government estimates the losses at 0.5 million tonnes, the Punjab Agricultural University at 2.4 million tonnes, the Birla Institute of Scientific Research puts it at 4.5 to 5.5 million tonnes and the All India Foodgrains Dealers Association at 7.5 million tonnes. There has been a serious loss of the wheat crop, a loss which may be hidden by the fact that the year's crop was a good one at 35.5 to 36 million tonnes. For the current agricultural year, the rabi wheat target is 38.5 to 39 million tonnes, for which an increase in the area sown with HVY varieties at 18 million hectares, a rather large increase in fertilisers consumption of around 20 per cent at 72 lakhs tonnes, a similar percentage increase in pesticide use at 72,000 tonnes, and a 10 per cent increase in irrigation are provided. The problem of the rising costs of agricultural inputs and the relatively stagnant foodgrains outputs is worrisome and is analysed under the Mid Term Plan review.

Food grains procurement at the beginning of July was 14.8 million tonnes, comprising wheat 7.2 million tonnes and rice 7.6 million tonnes. Though the procurement operation during the year was satisfactory, the buffer stock at 12 million tonnes was about equal to the annual offtake of foodgrains from the public distribution system and compares unfavourably with the stock of 18 million tonnes in 1977-78 and 21 million tonnes in 1978-79. Given the stagnant and to some extent declining level of foodgrains production, and the as yet unassessed damage to the rabi wheat output by

the rains, the foodgrains stock is at too thin a margin for the country. On this basis (and as I forecast in the mid term plan review), the government's announcement of the purchase of 5 million tonnes of wheat in August in the US market at a cost of Rs.450 crores is an appropriate safety measure, as well as a counter against speculative food price increases, and should be offset by increased exports of rice next year for reasons given earlier.

A further question that arises is whether the relatively low support/procurement prices of foodgrains and agricultural production generally compared to the rising costs of inputs - fertilisers, pumpsets, tractors - account for the stagnant/declining rate of increase of foodgrains and agricultural products. This issue needs careful investigation by the Planning Commission and academics. The empirical evidence on this issue show that in the first part of the 70s when the terms of trade were more sharply against agriculture, the rate of increase and the absolute amount of output, were higher than in the second half when the terms of trade were less against agriculture than in the first half and still the second half of the 70s (as noted under the mid term review of the plan) had a lower growth rate and absolute volume of production. Further though both rice and wheat growers faced the same unfavourable terms of trade, the technology used resulted in slowing rice expansion and continued growth of wheat output in the second half of the seventies, which might indicate that the current technology - water, HYV, fertilisers use - has reached a plateau. Hence while agricultural prices must be adjusted annually to cover rising input costs plus the net income element for the farmer and his family, the question of the rate of increase and amount of agricultural production seems more closely related to the nature and kind of technology being developed and used. For instance, research on optimum use of fertilisers has shown that only 50 per cent of the high cost fertilisers applied by the farmer is used by the crops - 30 per cent of the nitrogen applied to paddy, 50-60 per cent applied to wheat, 30-40 per cent of the potassium applied to either, and 70 per cent in the case of phosphorous. Unfortunately this is not known to the farmer.

<u>Pulses</u> The plan to produce this year 13 to 13.50 million tonnes of pulses is well under way, adopting improved technological practices, use of double cropping, inter cropping and relay cropping of pulses. Under double cropping, the increase is 0.87 million hectares, and under inter cropping 0.28 million hectares. Maharashtra and Gujarat show that inter cropping of cotton with pulses and oil seeds has proved a sure means of raising the production of all 3 crops - particularly pulses. Special efforts are being made to intercrop the rainfed cotton with pulses and oil seeds over an area of 1.5 to 2 million hectares over the next 2-3 years. This will at least prevent the falling per capita trend of pulses in the country with its increasing population.

<u>Cotton</u> Estimates of cotton production, prices and exports and imports were even more volatile in the 1981-82 cotton year. The Cotton Advisory Board first set total cotton availability - production, carry over and imports - at 99 lakh tonnes and demand - mills, exfactory and exports - at 76 lakh bales for the year, then in February revised the supply to 95 lakh bales and upped demand to 86 lakh bales, and again in May further revised its estimates to 96 lakh bales as total supply and total demand to 80 lakh bales, increasing the carry over stock at the end of the year from 10 lakh to 16 lakh bales. This kind of continuous changes in estimates, as I have pointed in earlier reviews, erodes the credibility of the Board and gives strength to the charge that its estimates are prepared to suit particular interests. There is need for a more reliable system of forecasting supply and demand. Second cotton prices did not of course reflect the estimates of the Cotton Advisory Board, and contrary to past complaints of the textile industry that cotton prices were high and continually rising, recorded between mid March 1981 to mid March 1982 a fall by Rs.1000 to Rs.1200 per candy. Cotton growers, as a consequence, are estimated to have lost Rs.100 to Rs.110 crores. The day to day turnover in the spot market was reduced from 6000 bales to 2000 bales, and according to the Economic Times the cotton prices index fell by 57 points to 216 between September 1981 and February 1982, and later upto mid May by Rs.500 to Rs.900 per candy.

The causes for this sharp price decline included (a) the prolonged (over 8 months) Bombay textile strike, (b) the large crop during the year, (c) the industry and trade keeping their cotton stocks to the minimum both in view of falling cotton prices and the first signs of recession to which reference will be made later, (d) the over ambitious purchase targets which CCI sets every year - for this year at 16 lakh bales revised to 12 lakh and later to 10 lakh bales and the purchase of only 8 lakh bales of Gujarat long staple cotton against the promised 10 lakh bales, and (e) the problems in the export-import trade in cotton. On the one hand the liberal imports (including some changes of dumping) of polyester fibre has weakened the already weak cotton offtake market. On the other hand, faced with the large supply, the government first released in February 6 lakh bales for exports, while actual exports at March end were 1.85 lakh bales, as Pakistan was offering the same (short staple) cotton at 10 per cent less price in world markets. In May government released a further 68,000 bales of long staple cotton, 50,000 bales of Bengal Dashi and 10,000 bales of yellow pickings, but till end May there was little response, as Indian cotton is 12 per cent above the world price, Bengal Dashi at 79 cents a pound must face other countries price of 70 cents and the Pakistan price of 60 cents. There is need for a long term integrated policy to be developed on forecasting supply and demand, on price trends and exports and imports of cotton, in place of the present hastily conceived ad hoc measures to tide over temporary crises which do harm both to the cotton and general economy.

<u>Sugarcane</u> Sugarcane production during the sugar year 1981-82 was a high 180 million tonnes resulting in record outputs of sugar, khandasari and gur which will be referred to later. The sugar cane target for 1982-83 was fixed at 184 million tonnes, lowered to 155 million tonnes and later put upto 180 million tonnes. The usual problem of sugarcane arrears on the part of the mills rose to a record of Rs.200 crores this year, so that the government persuaded RBI to provide additional credit to the mills in a separate account to pay these high arrears. On this, short of nationalising the mills, a long term solution needs to

be devised, as at present the general savings and credit of the community are being used to help the mills to discharge their obligations. Further the distance between the minimum cane prices of Rs.130 per tonne and the actuals fixed by the states at Rs.200-210 per tonne is getting wider every year. The other problem that arose during the year was the relationship between the area of sugar cane grown and the location of new sugar mills. The Sixth Plan guidelines on this have suggested that a newly licensed mill must be located 30kms (reduced from 50kms) away from an existing mill. However the state governments are setting up cooperative mills within 10-15 kms of existing mills. The result is that there is a declining use of installed capacity and waste of invested resources. Also the cane has to be procured over a long distance and so occur the freight cost escalations. The state governments must be made to conform to the agreed plan guidelines.

<u>Tobacco</u> On the one hand tobacco production has been rising slowly from 4.39 lakh tonnes in 1980-81, to 4.52 lakh tonnes in 1981-82 with a target of 4.5 lakh tonnes in 1982-83, due to floods and cyclones but also to price policy. Hence the government raised 1982 export prices by 12-15 per cent for the various grades of tobacco. On the basis of improved exports in 1980-81 at 76.9 million kg and 110 million kg in 1981-82, with the unit value rising from Rs.16.66 per kg to Rs.18.14 per kg, the problem has shifted to export markets. Due to poor quality and the inability to meet the quality requirements of Western Europe, Indian tobacco has been losing these markets and expanding its sales to USSR and China. China is a new comer in the large scale purchase of Indian tobacco, which may be cut back when its own production returns to normal. It is in the interest of Indian tobacco growers that their product be helped to meet the high quality standards of the European markets which is the major and long term outlet for them

<u>Jute</u> Jute production in 1981-82 was 82 lakhs bales of 180kg each, and is likely to be some what lower for 1982-83. In late July, 15,000 quintals of raw jute arrived daily in the market compared to 25,000 quintals last year. The carry over this year is 25 lakh bales

compared to last year's 35 lakh bales. The demand prospects for the year are dimmed by the closing of some 12 mills which could not continue production, along with the carrying of large stocks, and the slackening of the interenational demand for jute goods due to overseas recession, and the high cost of bank credit that is needed to maintain inventories. There is also the proposal of IJMA to have a weekly production holiday every month which would further reduce the demand for jute. Not only are exports declining by 15 per cent in each of the last two years, IJMA reports that at current prices the industry is losing Rs.1200 a tonne on sacking, Rs.2000 a tonne on carpet backing and Rs.850 a tonne on plain sacking. On top, to meet the increasingly strong competition from world manufacturers of synthetic substitutes, the quality of jute has to be improved and jute goods have to be developed to compete with synthetics. The recommendations to set up a Jute Board to promote cultivation of quality jute, its marketing and the export of jute goods should be acted upon by the government and the industry. If on top, the proposal for the International Jute Organisation is accepted by the major jute producers - India and Bangladesh - on the basis of agreed distribution of votes and the organisations' commercial borrowing ability, jute cultivation and the jute industry will take a leap forward.

<u>Plantation crops</u> Plantation crops which contribute 0.6 per cent of GDP and 10 per cent of our export earning, faced a mixed year in 1981-82 with a 3 per cent decline in the production of tea at 5.6lakh tonnes, a 20 per cent rise in coffee output at 160,000 tonnes, and a 5 per cent increase in rubber production at 160,000 tonnes. The other crops are stagnant, - cashew at around 15,000 tonnes and cardamom at around 5,400 tonnes. For 1982-83, tea production is being affected by the dry spell in May in Assam, the drought in West Bengal and in the South, particularly the Nilgiris. Upto July, the fall in production was 20 per cent, that is 11.50 million kgs, which together with the credit squeeze has led to a 30 per cent smaller use of fertilisers and pesticides, which also has depressed production. Though 52,250 hectares in the North and 15,300 hectares in the South are available for new plantings and though the Tea Board has raised the plantation subsidy

from Rs.20,000-Rs.25,000 per hectare to Rs.30,000-Rs.35,000 and liberalised the terms of the hire purchase scheme to help the small grower - Nilgiris has the largest number of small growers at 20,000 - at this point, it looks as if the VI Plan target of extending plantations to 750 million hectares is not attainable. In the Nilgiris 15,000 acres of plantation report in July severe drought, the closing of 10,000 mills, with doubts of whether even 46 per cent of the normal crop for the half year can be harvested. One plus point in this sombre scene is that there seems to be a good chance of an international tea agreement as a result of UNCTAD's work. Except the US, all producer and consumer countries are agreed upon quotas and price objectives. Coffee production on the other hand continued to increase and for 1982-83 a production of 170,000 tonnes expected against 160,000 tonnes in 1981-82, though here too the drought has lowered estimates to 150,000 tonnes. The problem faced by coffee is first the rather steep fall in international prices, so that with even increased exports in 1981-82 of 10 per cent at 88,200 tonnes, coffee earnings dipped by 30 per cent from Rs.225 crores to Rs.161 crores. In this situation, the government reduced the export duty from Rs.300 to Rs.120 a quintal from June 1. The other problems faced by coffee production is the low quota for coffee exports, proposed by a group of 18 members of the International Coffee Organisation (ICO) led by Brazil, which India has rejected. India exports 60,000 tonnes under ICO arrangements, and another 35,000 to the USSR. This level of exports must be safeguarded. For the present, international prices of coffee have recovered. Rubber production and sales present four sets of problems this year. First there are 4 supply-demand estimates facing the growers, users and the country. The Rubber Growers Association estimates that the 1982-83 demand will be 1.8 lakh tonnes and production 1.76 lakh tonnes, with no need for imports. The Rubber Industry Association estimates demand at 2.2 lakh tonnes and supply at 1.55 lakh tonnes and that the deficit of 65,000 tonnes should be met by imports. The Rubber Board's estimate of demand is 1.97 lakh tonnes, production 1.621akh tonnes, and the deficit

is 35,000 tonnes. The DGTD estimates demand at 2 lakh tonnes, production at 1.55 lakh tonnes, and the deficit at 45,000 tonnes. This chaos must be ended and a single estimate established by the Rubber Board. For this year the government has ordered imports of 35,000 tonnes. That is the second point, which is that our rubber policy must not be based on our having for always to import rubber, as the VI Plan seems to imply. As against such an assumption, we should expend rubber production, both through new plantations and by replanting beyond the 60,000 hectares, now in operation, extending rubber production to non traditional areas like Maharashtra, Goa, Andamans and Tripura. In this, the plea of rubber users, who have the resources, to enter the plantation industry should be accepted. Third rubber production must become more cost effective and its price made more internationally competitive. At present, because of short supply, domestic rubber prices are 20 to 25 per cent higher than international prices. Finally the role of STC in canalising rubber imports should be reviewed, as the complaints against its functioning include the delivery of rubber spoilt by rains, the time lag in its deliverances, and the high price it charges. The STC canalising is necessary only because we should attain self sufficiency by the VII Plan and this can be done. The rubber growers are also concerned about the Rubber Amendment Bill 1982 passed by the monsoon session of parliament because of the new position of the executive director it establishes (who may be a non-technical man) and of the down grading of the post of chairman of the Board to a part-time position. The government has given assurances against these possible misuses and next year's review should return to this point. Cardamom production in 1982-83 will be lower than 1981-82's 5600 tonnes because of the spreading disease in the plantations. The Cardamom Board has made certain recommendations for increased and improved production and means of meeting the rather stiff competition in the export market from Gautemala. Cashew production in the first half of 1982 was 1 per cent lower over the same period in 1981. Exports declined by 30 per cent to 28,000 tonnes in 1981 and to 3 per cent at 12,511 tonnes in the first six months of 1982. This volume

of exports is related to the imports during January-June 1982 of raw cashewnuts of 2,700 tonnes, and the import of 21,505 tonnes in January-June 1981 and 31,298 tonnes, upto November 1981. The result is that there is a large stock of cashew - in Kerala alone 12,000 tonnes - which will further increase in the coming months. In the interest of the domestic cahsew growers imports should once more be canalised through the cashew corporation of India and OGL of cashew abolished. It is essential that the price of cashewnuts be lowered in the export market so that some of our lost markets may be regained.

Manufacturing

The growth rate of manufacturing industries as measured by the index of industrial production was 8,2 per cent in 1981-82, as I forecast in last year's mid term review, as against the target of 10 per cent and the previous years rate of 4.1 per cent. The good performers were crude oil (55.22 per cent), transport equipment (26.1 per cent), leather footwear (16.1 per cent), food products (13 per cent), chemicals (11 per cent), minerals (10.5 per cent), electricity (10.1 per cent), coal (10 per cent), non electrical machinery (10 per cent), basic metals (8.4 per cent), beverages and tobacco (7.8 per cent), paper and paper products (7.7 per cent), and the bad performers were 'others' in mining (-3.6 per cent), textiles (-5 per cent), miscellaneous industries (-2.3 per cent), metal products (-0.9 per cent) and rubber products (-0.8 per cent). But the good overall growth in 1981-82 must be seen against a decelerating trend every quarter (pointed out by the Planning Commission)[26] from 11.5 per cent in the first quarter to 9.1 per cent in the second quarter, to 7.5 per cent in the third quarter down to a worrisome 4.7 per cent in the fourth quarter. For April 1982 the index registered a 6.4 per cent rise and for May 1982 7 per cent. The decelerating trend in the rate of industrial growth is due to the bottlenecks in industrial infrastructure which are still playing a part, including a deterioration in the power situation in the last quarter of 1981-82, the Bombay textile strike on which in the first 6 month Rs.600 crores of production is estimated to have been lost, and more disturbingly a slackening of demand in some 12 major industrial sectors.

This prevalence and spread of recession is seen in the deve-loping imbalances between slackening demand and rising or stable production, resulting in an increase of inventories, a rapid exhaustion of the order books, a decline in waiting lists, and the development or rise in black market premia as set forth in the data published by the following industries: commercial vehicles, tractors, tyres, general engineering, steel, textiles machinery, drugs and chemicals, aluminium and power cables, caustic soda, and paper. In the commercial vehciles area, TELCO reports the piling up of 3500 vehicles which is one month's production, with plans for a cut in production. Ashok Leyland reports a stock of 3000 vehicles which is two and a half a month's production and a 40 per cent cut in production, and Simpsons, which assembles trucks from semi knocked down imports, has closed down since December 1981. The buyers market which has developed has seen the 6 month - 3 year waiting period for new vehicles disappear, as they can be bought off the shelf, but with the credit squeeze, the small truck operators who are 80 per cent of all operators are not able to buy trucks, resulting in a steep fall in demand, from the total installed capacity of 1 lakh vehicles. The large number of ancillary industries dependent on the commercial vehicles units face a sudden consequential fall in demand with resultant closures, lay off of labour and bankruptcies of a number of units which are not able even to pay the lay off compensation. The same considerations apply to the tractor industry where sales have declined in April-June by 50 per cent and a 2000 tractors cut in monthly production, to the tyres industry where half the firms report that they are in the red, to the general engineering industry where production cuts range over 25 to 50 per cent, to textiles which, according to SIMA, report a pile up of yarn stocks by 50 per cent and cloth stocks of 20 per cent, despite the Bombay textile mills strike and the closure of Kerala mills, to the textiles machinery units which report Rs.20 crores of inventories and a capacity use of 40 per cent, to the steel industry which on July 1 reported an inventory of 11.39 lakh tonnes, and so on to the other areas referred to above. In this sombre situation, it is

to be hoped that the government response in parliament - both in the debate on the recession and on the no confidence motion- that there is no signs of recession any where, that this is simply a process of adjustment of supply to demand, and its quoting of a plethora of statistics concerning industrial growth, the increasing number of licences and letters of intent issued and the capital subscribed by the market - were just the usual debating points. The Planning Commission's review, however, takes the existence of slackening industrial demand seriously[26]. The remedial action that I would urge is first for the government to recognise that there is a serious slackening of demand in a number of important industries, second to undertake a detailed industry by industry survey in order to identify the causes which vary from industry to industry and take the appropriate action in each industry, third to establish a national policy to stop the chain reaction and multiplier effect which this situation is causing, including taking the measures suggested by the Planning Commission review such as step up in public sector outlay in railways and power, selective relaxation of credit, and review of imports in cases where they hurt domestic capacities.

Another related question that arises is the appropriateness of the various measures that have been and are being taken to increase industrial capacity such as the increase in the numbers of letters of intent and industrial licences (inlcuding those of large houses), from 946 and 475 in 1980 to 916 and 476 in 1981 and 233 and 146 in January-March 1982. This is accompanied by regularising excess capacity, providing for automatic annual growth of capacity, and the amendment to the MRTP Act passed by parliament at its monsoon session which following only 2 out of the 8 ~~month~~ main recommendation of the Sachar committee now allow for substantial expansion of capacity of MRTP companies. The basic assumption that expansion of capacity would lead to increase in production and improvement of productivity in this year of productivity which underlie these relaxations should be questioned, when the evidence at present all around is that production and productivity can be increased by using existing capacity, not by creating new capacity. This is apart

from the larger goal which we seem to have set aside of making the production structure conform to a scheme of social priorities. A further problem highlighted by a recent study on capacity utilisation[27] shows that using a corrected device to measure optimal attainable capacity by multi product firms over a 3 year period, capacity use is as low as 52 per cent in one year, with the highest being 58 per cent in the best year, and that there is no relation between capacity use and profitability with units making profits even with 40 per cent capacity use. This means the problem of capacity use is also a structural problem and is traced to the closed market, the industrial licensing system, and other protective devices, which were originally needed to develop capital goods industries and consumer goods units which use their products, but which now continue with unused capacity and yet make a profit. The selective opening up of our closed markets is thus indicated. The other causes for capacity under utilisation are (1) shortages in vital inputs referred to earlier, such as power, fuel, finance and transportation (2) the relation between capacity use and size and location of plant, capital intensity and class of industry, and (3) the impact of frequent changes in government policy. The highest rate of capacity use in all of the 3 years (1977-80) was in textiles, followed by rubber goods, rayon and synthetic fibres, instruments, fertilisers, and insecticides industries. Consistently poor showings were in automobiles, industrial machinery, tobacco, oils and soaps, steel castings and forgings, steel pipes and tubes, structural fabrications and material handling equipment. Medium sized industry were the poorest capacity users. To quantify the non-structural causes of low capacity use, the response from industry attributes 10 to 25 per cent of under use to shortage of raw materials, 25-50 per cent to power shortage and 0-50 per cent to the credit squeeze and short fall in working capital. In all this, small scale industry suffered on every count more than medium industries. Only a small percentage of large units performed badly in this regard.

And yet the Annual Report of the Small Industries Development Organisation for 1981-82 states that the small scale industries registered

a higher rate of growth for 1981-82 than large and medium industries, registering a 10 per cent growth in production (Rs.2592 crores) and 6 per cent in employment (75 lakh persons). This performance is referred to/to justify the extension of the reserved list for purchase by government from small industries - which are now 384 items in group IV, 11 items in group V and 15 items in group VI. The small industries group include ofcourse a sizeable member of units belonging to the large houses, both officially but more often under benami arrangements.

The government also reports on growing industrial sickness, with 24,051 units declared sick at the end of June 1981, compared to 22,325 units in June 1980 and 20,700 units in June 1979[28]. Of the total sick units in June 1981, 22672 belonged to the small scale sector, 956 to the medium scale sector enjoying bank credit of less than Rs.1 crore, and 424 large scale units who each draw more than Rs.1 crore as bank credit. Though the official account is that bank credit to the sick units amounted to Rs.2064 crores at the end of December 1980, unofficial estimates are that they passed Rs.3000 crores by the end of December 1981. This is a serious situation, which FICCI also calls attention to in its reference to just 4 industrial sectors - jute, textiles, engineering and rubber industries - owing Rs.1175 crores from their sick units, and the industry as a whole having Rs.2400 crores locked up in sick units. It estimates that to modernise these plants an amount of Rs.3682 crores will be needed[29]. In past reviews, I have analysed the causes for this growing sickness. Now what is needed is, first, precise official updated figures to be published periodically by the Reserve Bank (at 6 monthly intervals), second identifying sickness at the incipient stage, using the State Bank of India suggested test of placing a unit which does not generate a minimum surplus for a period exceeding a year under special watch as a sound monitoring device, and third acting on the 1981 Tiwari committee recommendation of setting up a quasi judicial authority to deal with the difficult options open in regard to sick companies, namely programmes of revival, or take over, or sale as a running company, or liquidation. The government might make

a start within the existing law by denotifying sick units, on which the banks and term lending institutions can then take action, atleast to ensure the return of their credits from those units.

In last year's review I referred to the need for combating the rapid obsolescence of industry by adopting appropriate cost (inflation) accounting techniques[30]. It is interesting to see the result of a demonstration of this made by one large size firm. TELCO[31] reports that using current account valuation, for 1981-82 its gross assets would be Rs.1954 crores instead of Rs.650 crores, its net assets would be Rs.1051 crores instead of Rs.304 crores, its provision for depreciation would be Rs.101 crores instead of Rs.37 crores and the profit before tax would be Rs.7 crores and not Rs.78 crores. This is a good illustration of the only way available for provision of adequate depreciation reserves, along with the willingness to accept lower rates of dividends and returns.

As against the industrial growth rate of 4.1 per cent and 8.2 per cent in the first two plan years, I forecast an industrial growth rate of 7 to 8 per cent for 1982-83, which is also one of the bases on which the overall growth rate for the current year is projected in the section on the mid term review of Plan. This means that at this mid term point the industrial growth rate at an annual average of 6.6 per cent is below the Plan targetof 7.76 per cent, but has a good chance of reaching the target by the end of the Plan if the infrastructure, which will be analysed later, functions reasonably well.

Public Sector

At the 1982 monsoon session of parliament, the government placed before it the provisional results of the 1981-82 public sector units performance[32]. The number of companies reported were 169, capital employed Rs.21393.68 crores, sales Rs.35,853.96 crores, gross profit Rs.2482.36 crores, gross profit as percentage of capital employed 11.60 and net profit after depreciation, tax and interest Rs.403.70 crores. This satisfactory result compares with the public sector's series of

losses of Rs.200 crores in 1980-81, of Rs.74 crores in 1979-80, Rs.40 crores in 1978-79 and Rs.91 crores in 1977-78. The government in its report admits that the net profit made in 1981-82 was in part due to the rise in administered prices and in part to inflation. There is little increase in production or fuller use of capacity, or improved productivity that can be seen. According to parliament's committee on public undertakings, of the 150 public sector units that it investigated in 1981-82, 42 units were using less than 50 per cent of their capacity, and only 8 out of 68 industrial licences issued to the public sector units resulted in projects. It further points out that the lossesof the Electricity Boards of the states which were Rs.679 crores for 1981-82 will amount to Rs.4400 crores for the Plan period, against the Plan estimate of loss of Rs.22 crores from this source (see table 5.6 of the Plan), which incidentally means that the public sector will not contribute Rs.9395 crores to the Sixth Plan as projected in the Plan. The lacks in productivity in this year of productivity the public sector shares with the private corporate sector to be referred to later.

Private Corporate Sector 1981-82 was in some way a good year for the private sector. The balance sheets of 563 large units (those with sales of over Rs.5 crores) show a 20 per cent increase in sales over 1980-81 at Rs.23,331 crores, a 17 per cent increase in operating profits before interest and tax at Rs.1995 crores, a 14 per cent increase in profits before depreciation but after tax at Rs.1293 crores and a 15 per cent increase in gross assets formation at Rs.1451 33 crores. The letters of intent issued were 746 in 1980, 916 in 1981, and 233 in January-March 1982, and industrial licenses for these years were 475,476 and 146. The controller of capital issues in the Ministry of Finance reports that fresh capital raised by the companies in 1981-82 touched a record Rs.533 crores of which Rs.452 crores came from the primary market, that is funded by the public at large and Rs.81 crores from the existing share holders compared to Rs.269 crores, Rs.112 crores and Rs.157 crores respectively in 1980-81. Against this encouraging picture, the poor productivity record of both the public and private

sectors must be noted. In 1971 the net output per employee was Rs.19,400 per year, in 1981 it was Rs.19900/- the decade's increase of Rs.500 per worker per annum should be compared with the increase in the same time span of Rs.6000 per worker per annum in Japan. The only consolation is that the productivity in agriculture at -2 per cent is even worse than the 3 per cent rise in manufacturing - which incidentally explains the hard ocore poverty problem of the country, wherein the output per employee in agriculture is Rs.4071 per annum in a situation where the average family requires Rs.4200 to live at the poverty line[34]. In the private corporate sector, as in the public sector increased sales and increased profits are due largely to inflation and the structural causes referred to earlier, and not in accordance with the accepted economic calculus that a 1 per cent increase in output requires a 0.5 per cent increase employment and/or capital, and 0.5 per cent increase in productivity. In the private sector in 1971 Hindustan Aluminium produced 78,503 tonnes of primary metal and 23,316 tonnes of rolled products, in 1981 it produced 77,306 tonnes of primary metal and 30,739 tonnes of others, but its net turn over increased three fold from Rs.38 crores to Rs.113 crores in that period - all due to inflation. So too is TISCO whose production has been pegged at 1.5 million tonnes but whose sales, profits and dividend have been increasing. In light of these general considerations, a dozen industrial sectors might be briefly reviewed.

<u>Steel</u> In 1981-82 total steel production was 8.8 million tonnes, of which the integrated steel plants produced 7.16 million tonnes against the target of 7.85 million tonnes. Three issues during the current year face the integrated plants in meeting the target of 8.67 million tonnes as part of the total steel target of 9.69 million tonnes. First the current trend in productions is both encouraging and problematic. In the first four months of the current year, April-July, the plants report building up of adequate coal stocks (which stood at 6.2 lakh tonnes on July 1, 1982) due to increased production of coal by Coal India and good wagon delivery and loading by the railways. The result was an 8 per cent increase in production up to June and capacity use

of 75 per cent. But in July SAIL reports a very serious power shortage facing its plants resulting in closing of one plant (Rourkela), and the other plants not being able to produce more than 65 per cent of the July target of 5.03 lakh tonnes. Overall, the SAIL group lost 2.56 lakh tonnes production in the first quarter production which was 1.25 million tonnes and for the period April-August 2.076 million tonnes. The July set back is serious first because it was from July that SAIL plants were to lay stress on the production of structural plates, rails, and thinner widths, and second because it endangers attaining the year's target and the 90 per cent capacity use that have been planned. The second issue was the April decision abolishing the system of administered prices for steel produced by the integrated steel plants, and leaving it to the Joint Plants Committee (JPC) to fix prices. JPC's first round of price decision on April 2 was rather restrained because in response to the supply-demand balance, its decision took account of the high inventories with the plants and stock yards, which in February 1982 amounted to 11.5 lakh tonnes against 6.47 lakh tonnes in February 1981, as a result of the decline in demand and the rather large imports under OGL in 1981-82. The third issue is whether the decontrol of prices will enable the industry to take over the (black market) premia previously paid by the consumers, which can flow into the Steel Development Fund and so finance the modernisation and expansion of the plants. This depends on the glut being overcome, and the distribution machinery becoming broad based to equate supply availabilities with demand.

<u>Aluminium</u> Aluminium production in 1981-82 was 2.68 lakh tonnes, which was a marginal increase (8000 tonnes) over the 1980-81 production, so that the double price rise amounting to a total of Rs.5470 per tonne in 1981-82 and the excise reduction has not really increased production. Domestic production is short of domestic demand by over a lakh tonnes, which is the annual rate of import of the metal. For the present, as noted earlier, there is a glut with 30,000 tonnes of inventories with the four producers and 25,000 tonnes of imported stocks with MMTC. This large stock is in part due to consumer resistance to the price rises and the

decline in the State Electricity Boards' demand for aluminium due to their poor functioning, andlarge imports. What is now needed is a stimulus to demand by lowering of the price and efficient functioning of SEBs and in the medium term for the industry to optimise its use of power and increase its capacity use beyond the current 65 per cent.

Machine tools Machine tools production is doing well in terms of value of production and target achievement. Production has increased from Rs.196.2 crores in 1980-81 to Rs.250 crores in 1981-82 and against the Draft Plan (1978-85) target growth rate of 11.2 per cent achieved 28.4 per cent in 1978-79, 22.4 per cent in 1979-80 and 12 per cent in 1980-81, which was also the target growth rate of the VI Plan. The industry, however, faces several problems. First the good performance recorded above is largely due to price escalation as there is no price control and machine tools are in short supply. In volume terms, a decline is noticed in the important A group from 12,079 items in 1979 to 11546 in 1980. Second the technological gap facing the industry is widening which is one reason for the increase in imports of sophisticated machine tools. In the long run these imports assist the industry by creating and expanding the domestic market for better class machines and is gradually increasing the number producing quality tools. This also is the nature of demand in our export markets. A third problem is the low rate of investment in the industry which needs to be stepped up, as the industry does not attract preferential capital by investors. The term lending institutions may investigate this area.

General Engineering On the broader engineering industry, it is difficult to obtain upto date information. At the official level, CSO's Annual Survey of Industries provides information on the industry for 1978-79 which shows increase in capital employed from Rs.7654 crores in 1977-78 to Rs.9156 crores in 1978-79, a 20 per cent increase in production, a similar growth in value added, and an impressive increase in employment from 18.72 lakh workers to 19.28 lakhs in 1978-79. The Association of Indian Engineering Industry's Handbook of Statistics 1981 gives more upto date information. It refers to the 4.5 per cent growth rate of the industry

in the 70s which is higher than the general industrial growth rate of 3.8 per cent but covers up the low growth rate (2.7 - 2.9 per cent) of basic metal, metal products and transport equipment industries and to the fall in the growth rate for 1980 and that projected for 1981. It reports that the industry, expecting a poor industrial climate, did not embark on higher capital expenditure on buildings, plants and machinery during the period ending September 1982. The constraints faced by the industry are shortage of power, steel items, bought out componenets, pig iron and non ferrous metals, credit, finance, order and sales.

Railway wagons The VI Plan target of procuring 1 lakh railway wagons will not be met, which is serious because it means to that extent obsolescent wagons will have to be used with consequent risk to both traffic and the goods conveyed. To bring upto date my 1980 review, in 1980-81, 10,400 wagons were produced and purchased against the target of 13,000, and in 1982-82 17,000 were produced against the target of 18,000. For 1982-83 an ambitious production target 22,000 wagons has been established, which will not be reached first because the railway budget for 1982-83 does not provide the resources for such purchases, and second because of the limits of the wagons industry, where the number of units have declined from 16 to 10, installed capacity from 32,000 to 26,000 and an increase in sickness as capacity use has declined from 80 per cent in the 60s to 40 per cent in the 70s. Of the 5 lakh wagons in use, 7 per cent (35,000 wagons) are sick, so that even to maintain its present traffic carrying capacity it needs to purchase 47,000 wagons this year (backlog of 35,000 plus 12,000 to be replaced this year). There is little hope that in the balance of the 3 years of the Plan, 72,000 wagons will be purchased, which is an average of 24,000 a year. It is hoped that in the mid term Plan review, the railway's resources will be increased at least to 75 per cent of Rs.1300 crores demanded for 1982-83 so that the freight target of 255 million tonnes can be met.

Cotton textiles The cotton textile industry faces short term and long term problems. The short term problem is the Bombay textile strike which affects 54 mills producing 1200 million metres of cloth,

out of the country's 4200 million metres. The Bombay mills have been losing production daily of 4 million metres or Rs.4 crores for 8 months, besides the daily loss to workers of Rs.63 lakhs, and the loss of Rs.150 crores in the country's cotton textiles exports of Rs.250 crores. The effects of the strike are seen in the falling demand and prices of cotton, textile machinery, machine tools, electrical, dyes stuff and small industries and retailers. On top of this is the recession and slackening of demand and pile up of inventories which averaged 91.5 million metres in 1981 and the first quarter of 1982, though monthly cloth production fell from 83 million metres in January to 50 million metres in December 1981 and yarn from 14 million kg to 8 million kg in that period. Further, the industry reports that in 1981, its cost went up by 26 per cent, while cloth prices rose by 10 per cent. The government in late July came up with a formula for resolving the strike, which at the time of writing this note in early September has not been accepted by the workers. The medium and long term problems as set forth by the industry start with the steep fall in the offtake of cloth both at home and in exports, resulting in accumulation of stocks with the mills, sales at unremunerative prices, resulting further in losses, depletion of working capital at a time when it needs to be increased to meet the costs of rising inventories, wages, power and cotton prices, and a near halt to the modernisation programme. The long term profile on the per capita availability of cloth is seen in the following table:

(metres)

Year	Cotton fabrics	Blended and mixed fabrics	total
1965	14.72	17.23	16.45
1975	12.58	2.22	14.80
1976	11.36	2.81	14.71
1977	9.43	4.50	13.93
1978	10.23	5.34	15.58
1979	10.25	5.00	15.25

Source: ICMF

The table shows the declining per capita cloth availability, in addition to which the survey[35] basing itself on NSS data points out (as noted earlier)

that the top 30 per cent of society consume 25 to 35 metres per head, while the bottom 40 per cent consume less than 3 metres, which has also been on a declining trend and which it attributes to the steep rise in food prices from 199 in June 1980 to 277 in June 1981 and 241 in October 1981 and on which the poor spend 60-70 per cent of their incomes. The survey refers to RBI studies to show that the textile industry has been working on low profitability margins - with gross profits as percentage of sales being 4.4 to 6.1 per cent between 1965-66 to 1971-72 against 8.8 to 10.7 per cent for all industries, and 4.4 to 5.3 per cent between 1975-76 to 1977-78 compared to 9-10 per cent for all industries. Hence it points out that retained profits after tax has for many years been minus, leading to spreading sickness in the industry, which also suffers from the discrimination in favour of the decentralised sector (in subsidy, excise and sales tax exemption) against the ban on the mills installing new looms from 1956, their higher excise and their obligation to produce coarse cloth at contolled prices. The result is that of the doubling of cloth production in the last 30 years, 57 per cent has come from the decentralised sector and 43 per cent from the mills sector. The VI Plan envisages a per capita consumption of 15.24 metres which for 717 million people means 13,6000 million metres, to which mills will contribute an increased 8 per cent, power looms 32 per cent and handlooms 40 per cent. The Survey refers to the protected filament yarn used only in art silk and power looms, and is mostly consumed by the rich who get the tax exemption benefits. The table brings out the growing demand for blended and mixed fabrics whose demand has begun falling after 1978, and to counter which the various governmental taxes on it should be reviewed. This survey exaggerates on some points. The industry had no doubt a long period of slump, but in the 3 year 1977-78 to 1979-80 it made high profits due to the sharp rise in cloth prices and no rise in costs, which the RBI averages referred to earlier hide. But the basic questions raised are: (a) the slowing down of the modernisation process (from 1974 to 1980 automatic looms increased by less than 10 per cent from 46,000 to 49,000) and the need for speeder action by the term lending institutions and incentives for investment in the industry:

(b) the lifting of the ban on additional loomage along lines suggested by the Gujarat committee in order to increase production for both domestic needs and exports which are falling: and (c) the lowering of taxes on synthetic fibres.

Sugar In/the sugar area seven developments during the sugar year may be noted. First during the first 10 months of the session 1981-82, 83.64 lakh tonnes were produced as against 50.44 lakh tonnes in that time in 1980-1981. The total offtake during the first 10 months upto July 82 was 40.09 lakh tonnes for domestic consumption and 2.49 lakh tonnes for exports. For the year sugar production will amount to 85.0 lakh tonnes. Khandasari and gur in the 1981-82 sugar year will amount to 100 lakh tonnes. Second despite this record production which characterised the year from the beginning, in October government imported 2.15 lakh tonnes sugar, when there was plenty of sugar in the country and at a time when every effort should have been made to cut imports to ease the strain on our foreign exchange. Besides there was a heavy revenue loss that the imports involved, as the landed cost is Rs.5200 per tonne and the sale price is Rs.3650 a tonne. To this moment, there is no explanation for this action by the government. Third despite the large production, the government reduced the free sale release of sugar by 90,000 tonnes to 2.71 lakh tonnes in November 1981 and further to 1.70 lakh tonnes in December. The result was that free sugar prices which had declined till mid December shot up by Rs.75 a quintal between December 28 and 31. The January release was cut by a further 30,000 tonnes to 1.4 lakh tonnes when prices shot up to Rs.675 a quintal. The reason for the government manipulating the free sale release to send up sugar prices has been attributed to various motivations. There was no justification for this, because it has (a) led the industry to expect a price of Rs600 a quintal to be normal and any fall below that has led to its demand for (i) liberalised credit, (ii) increased exports and (iii) the establishment of buffer stock and (b) resulted in continued high prices, with a rise of Rs.30 per quintal in June when the production was already over 80 lakh tonnes and the consumers paying Rs.5.75 to Rs.6 per kg. It is easy to push

prices up: it is not so to bring them down. Fourth on July 26 the government announced in parliament the setting up of a sugar buffer stock of 5 lakh tonnes, with 100 per cent credit provided by the banks and mills being compensated for holding the buffer stock by providing them holding cost. This adds to the resources set apart for buffers but seems inescapable, with a case for eventually doubling the buffer stock. Fifth the VI Plan target of 80 lakh tonnes of sugar by 1984-85 has already been surpassed with the existing capacity of 60 lakh tonnes. In October 1980 the government announced generous incentives to set up new sugar units and to expand existing ones. These were further liberalised in September 7, 1981. How far installed capacity has expanded is as yet unknown. Sixth what this year's experience against that of the last 10 years indicates is (a) the need to stablise sugar cane production around 170-180 million tonnes, and (b) some control over both government policy and that of the sugar mills groups so as to stop the raising of prices as was done this year. For this the extension of cooperative sugar mills-cooperatives owned by cane growers - could be a step in the right direction if political leadership and intervention could be avoided. Lastly there is the problem of molasses which the industry faces, particularly in Tamil Nadu. Against a storage capacity of 1.6 lakh tonnes, the factories in the state by early August have accumulated 2 lakh tonnes, resulting in storage in open pits, which has led to loss in quality, exposure to wind and rain, evaporation losses and pollution problems. As cane crushing is going on in over 12 large mills, molasses will be 3.71 lakh tonnes this year to which last year's carry over stock of 57,000 tonnes should be added, making a total of 4.28 lakh tonnes. The only outlet for this statutorily controlled commodity is alcohol distilleries. The government estimated that the distilleries in the state will take 3.2 lakh tonnes, but faced with over production and stock glut, they have not been able to take even 1 lakh tonnes. The union commerce ministry sanctioned an export of 25,000 tonnes but with the international price falling from $49 to $29 per tonne, no exports have taken place. The future is even more serious, as next year's cane production and crushing is estimated at 90 per cent of this year's, so that the molasses problem will become unmanageable. The immediate palliative is to allow the free sale of

molasses within the country and give up on the prohibition bias - which has been given up by the state governments any way.

Drugs In drugs and pharmaceuticals production, government reports a rise of 9.1 per cent in 1981-82 in value terms from Rs.240 crores to Rs.270 crores for bulk drugs and from Rs.1200 crores to Rs.1300 crores for formulations. The fight between the foreign multinationals and the government over the drug policy adopted in March 1979 on the basis of the Hati committee recommendations as reported in the last review (pp34 & 35) continues. The foreign companies refer to the failure of the drug policy in increasing production and make a strong case against the reduction of foreign equity participation and price controls of essential bulk drugs and formulations. They have already managed to dilute the directives and the recommendations of the Hati committee that foreign equity holdings should be reduced immediately to 40 per cent and ultimately to 26 per cent. On the other hand, 16 out of 31 foreign multinationals have been permitted equity holdings above 40 per cent and 12 companies even above 50 per cent. The government should stand firm and apply rigorously the Hati directives. Per contra, IDPL and the domestic drug industry need to move to increase production of essential and bulk drugs and formulations, for to the extent that there is a short fall in supply against demand, the foreign companies are performing a service in countering the complacency noticeable in the annual report of the Department of Chemicals and Fertilisers. In July, following the recommendations of the Sane committee, the government has ordered the stopping of manufacture by 30 September 1982 and of sales by March 31, 1983 of 350 brands of drugs and formulations being marketed by foreign and Indian drug companies, because of their harmful effects.

Soda ash To bring the situation with regard to soda ash upto date, the 1981-82 production was higher than the last review's forecast at 6.47 lakh tonnes. During that year 1 lakh tonnes was imported, making the total availability 7.5 lakh tonnes, The government places the demand at 6.8 lakh tonnes to which some 28,000 tonnes from the unorganised sector should be added. There was thus an excess of 50,000 tonnes, and with

imports continuing under OGL (with some complaints of dumping by Bulgaria), the industry, which is one facing recession, as noted earlier, reports unsold stocks at 90,000 tonnes in May 1982. For 1982-83, the government estimates the demand for soda ash at 7.2 lakh tonnes, with the production prospects of 7.5 lakh tonnes, on the basis of the expansion programme of the two major producers and another unit coming up in the South. There is no need for imports. But some of the users are asking for continuation of imports, because Bulgaria keeps lowering the price which was Rs.3200 a tonne in 1981 and is now Rs.2100-Rs.2400 in order to capture as much as the market as possible. For instance, I have just received a note from the All India Silicate Manufacturers' Association which states that soda ash producers place their target of production for the year at 6.56 lakh tonnes only, involving the use of 90 per cent capacity and a 36000 tonnes production by the new Tuticorin Alkalis. The implication is that imports should continue in order to close the supply-demand gap. The government should take soda ash off OGL, canalise the imports, and ask the Bureau of Industrial costs and prices to help it in fixing the price of soda ash.

Dye stuffs Dye stuffs is another area where a slackening of demand is noticed. The organised sector of the industry comprising 25 firms producing 70 per cent of total production reports piling up of inventories, leading to operating at below 50 per cent of capacity for the current year. The problem of the misuse of the excise relief to small units which in the 1981-82 budget was raised to those with capital of Rs.7.5 lakhs has led to increasing the number of small units to over 600 at present (which is a three fold increase in four years), the increase being effected by large firms breaking up into small ones to avail themselves of the tax concessions. The overall result is lowered production efficiency and unfair trade practices. Under these conditions, the recommendation of the committee on dye stuffs that the excise duty on all units be reduced to 10-15 per cent from the present 31.5 per cent, while keeping the duty relief to small units, might be the next step forward to clean up this mess.

Paper The paper industry is also another one which reports increase of inventories from the normal 3 or 4 days demand to over a month's. The 1981-82 production was 13 lakh tonnes and demand 13.10 lakh tonnes, compared to the earlier wider gaps bewtwen demand and supply, which means that theindustry is losing its sellers market and wants control on production (30 per cent for distribution) and prices (Rs.4200 per tonne) removed. The government response was to cut newsprint imports by 1 lakh tonnes, so that the indigenous industry can supply substitute paper. The issue here is to stimulate investment in the newsprint industry which should use imported chemical pulp with its resulting newsprint cost of Rs.4000 tonne compared to imported newsprint which costs Rs.6000 a tonne. The current use of hard and dry wood by the newsprint industry involves a lot of wastage by insects, besides producing poor quality newsprint (the dull brown we are all familiar with). The way forward to meet the country's annual average requirement of 4.2 lakh tonnes is (a) to allow import of chemical pulp for the industry, (b) to allow the industry lease of forest lands to grow trees with high yielding pulp and (c) to allow experiments like the deinking technique and use of bagasse, - all of which can make the country independent of newsprint imports. The further problem is the 62 mini paper plants cleared by government, the 47 which have been sanctioned finance by the term lending institutions and the 21 which had started operations last year, where the capital needed is double that of the estimate of Rs.4 crores each, the lack of expertise of the plants in the country, and above all the serious shortage of raw materials arising from the fact that the plants instead of using agricultural wastes are using waste paper and paper pulp, whose costs are soaring. Further paper machinery and technology are advancing because of the growing scale of operations, so that the only way in which these mini paper plants can survive and become viable is by using bagasse or agricultural waste or bio mass, and it is to that end that the term lending institution should be left free to direct the industry.

Cement The cement industry recorded a 12 per cent increase in production in 1981-82 at 21.1 million tonnes due to improved power availability and the commissioning of new cement factories. In 1982-83 7.5 million tonnes of additional capacity is to be commissioned - additional to the existing 27.7 million tonnes. The target for 1982-83 is 25 million tonnes against the demand of 27 million tonnes, the gap to some extent being met by high priced cement imports. The major event in 1982 in the cement area was the partial decontrol of price and distribution which divided availability into levy and free market. The prices have been so fixed as to eliminate the black market premia which should now flow into and generate funds for the modernisation of the cement units. The functioning of this partial decontrol system and its ability to close the supply-demand gap needs watching. Furtherthe question of the supply-demand gap being met by imports at present makes no sense. Domestic cement prices are half of international prices. If domestic prices are allowed to rise anywhere near the latter, the industry rate of return will be a high 60 per cent, and there will be adequate investment flowingin the industry, not only to eliminate imports, but, with our comparative cost advantage, to export cement and earn the needed foreign exchange.

Infrastructure As the major elements of the country's infrastructure have been reviewed in the mid term plan review section earlier, only certain additional high lights during the year, as they affect the year's agricultural and industrial performance will be referred to.

Railways and Shipping As noted earlier, the railways are, at the end of the first quarter of this year, a little behind the target of revenue earning traffic that it has carried, which has however, not stopped it from stepping up the target for the year of revenue earning traffic from 230 million tonnes to 235 million tonnes at the time of presenting its supplementary Demand to parliament in August. The Railways will this year provide the transport facility needed by the economy, but its ability to do so next year and in the future depends on it being able to invest in development atleast 50 per cent of the additional income of Rs.600 crores per year it is now raising (instead

of the 8 per cent), which will also maintain a necessary rate of replacement of sick wagons. In addition, the Plan must provide it with additional resources for it to open up the backward areas of the country, and not simply concentrate as it is doing now on "areas that have the maximum pay offs in terms of improving productive capacity and operational efficiency of the railways". It must weigh the trade off between operating revenue earning lines and opening lines in the country's backward regions, whose development is also a prime Plan objective.

Shipping services which began picking up in 1980-81 by 1.95 lakh GRT and in 1981-82 by 3.3 lakh GRT, will add about 3 lakh GRT during the current year. There is still the effect of the depression in the freight market and cash flow problems felt by the shipping lines, as a carry over of the international recession in the latter part of the 70s. The ports which cleared 87.4 million tonnes in 1981-82, are now clearing cargo at a 5 per cent increased rate, so that during this year they will clear around 90 million tonnes against the target of 95 million tonnes. What is impressive is that there is at present no congestion in the ports - not even in Bombay -, and the capacity of the major ports is being increased from 100 million tonnes to 110 million tonnes, with the completion during the current year of 2 of the 9 ongoing schemes of augmenting port capacity.

Power The 10 per cent improvement in the supply of power during 1981-82 was the major cause for the increase in industrial growth referred to earlier. This was achieved by concentrating on ensuring better coal supplies, spares and other services to expedite repairs, training of maintenance staff and monitoring of the norms being followed by the stations. The result is the short fall in power availability which was 16.1 per cent in 1979-80, and 12.7 per cent in 1980-81 fell to 10.8 per cent in 1981-82. But this gap was large enough to affect seriously the industries functioning in Gujarat, Maharashtra, West Bengal, Bihar, Karnataka and Tamil Nadu during the year, which means the gap was probably wider. Further there has been a decline in the quarterly growth of power generated in 1981-82 and 1982-83, at +19.2 per cent in April-June 1981, +9.9 per cent in July-September 1981, +6.7 per cent in October-December 1981, +6.0 per cent in

January-March 1982 and +6.0 per cent in April-June 1982. Further the plant load factor is still 46.5 per cent (compared to the 56 per cent in 1976-77) and, as noted earlier, the short fall in installed capacity is increasing and is expected to be 34 per cent this year. This means the short fall in power supply will continue this year at 10 per cent, and with demand increasing, the shortage this year will be more acutely felt. On this basis, I forecast that the increase of power will be a modest 7 per cent.

Coal The coal availability in 1982-83 continues the improvement of the previous year, when the revised target of 124 million tonnes was exceeded at 124.9 million. In the first quarter of the current year, April-June, the Department reports a production of 25.7 million tonnes which was 1.3 million tonnes higher than the production in the first quarter of 1981, coal despatches in the first quarter were 20.2 million tonnes and coal stocks with CIL were 18.8 million tonnes on June 30. The increased production is due to better availability of explosives, better industrial relations, some improvement in power supply and increased investment. During the past 4 years, additional investment in CIL has been Rs.1305 crores, and in June four proposals costing Rs.192.50 crores were approved to increase production by 6 million tonnes by BCCL, ECL, and WCL. The problems facing the industry are first, despite the increasing production trend, there is a continuing supply demand gap which last year was 16 million tonnes and this year will be 6 million tonnes, if the year's target of 133.5 million tonnes is attained. Second the price increase of 12 per cent of CIL, and 14 per cent of SCCL (which has meant a 150 per cent increase between June 1979 to June 1981) and which was needed to meet the cost escalation and turn the industry from a loss making unit, means that other industrial sectors - steel, cement, railways and state electricity boards - will feel the impact, and while the first three will pass on the rise to the consumers, the State Ekectricity Boards will go further into the red. Probably the time has arrived to establish a national basis for coal pricing. Third is the difficult question of whether, with the increased investment and increased prices, there is a trend of rising productivity. On the basis of the scanty

empirical evidence of the industry's productivity from 0.71 to 0.78 per man in 1980-81 and the surplus labour of 50,000 in CIL, the answer is in the negative. Fourth there is need to improve the distribution policy and for this CIL has drawn up a plan to set up 116 coal handling plans in order to improve coal distribution to power stations and other consumers. It will have 71 additional dumps to the present 31 and with the 6 new washeries for benefication, it is hoped that both coking and non coking coal distribution will improve this year. Fifth there is the immediate and long term problem of open cast mining versus underground mining. The reason for the growing complaint about the quality of coal is due to the fact that the increased coal production is almost entirely from open cast mining which is quick and easy to operate, but the quality coal needed by thermal plants can only be obtained from underground mining. In so faras the increased investment is being used for open cast mining, the investment is being misdirected. The departments' figures speak for themselves on this issue. The entire increase from 24.91 million tonnes in 1977-78 to 46.19 million tonnes in 1981-82 came from open cast mining, while underground coal production decelerated from 64.05 million tonnes to 63.42 million tonnes during that period.

<u>Crude</u> Crude oil production in April & May 1982 increased by 30 per cent at 3.202 million tonnes compared to 2.47 million tonnes in April-May 1981. At this rate, total indigenous production in 1982-83 of crude oil will be 20.98 million tonnes and petroleum products 31.8 million tonnes as against the total demand of 31.7 million tonnes of crude oil and 35.71 million tonnes of petroleum products. This means an import of 12 million tonnes of crude compared to last year's 16 million tonnes. But with regard to petroleum products, imports are being increased from the planned 4 million tonnes to 5.8 million tonnes due to the strike of BPL in Bombay, the shutdown of its secondary processing units and the delay in the commissioning of the Koyali and Mathura refineries. And so the government is pushing to increase domestic production to reduce imports through opening the second round of bids from foreign oil companies for oil exploration and drilling in the selected restructured blocks. ONGC on

its side plans to drill 195 new exploration and development wells during 1982-83. In addition to the World Bank loan of $200 million, it is going to the international capital market to raise additional credits. The need for cutting back also on the present unacceptable rates of increase of crude and petroleum products consumption (at 10 per cent over) has been emphasised earlier. This is an urgent issue because according to the agreed government and IMF estimate this year, the crude and petroleum product import bill will be marginally higher than last year's at SDR 5159 million (Rs.5.3 crores) which will be 5/9 of our export earnings, if the export target of SDR 9435 million (Rs.10,000 crores) is reached.

Non conventional energy The various non conventional energy sources sponsored by the Commission on Additional Sources of Energy (CASE) are still at the discussion, planning, blue print and demonstration stage. The union ministry of agriculture reports that this year 75,000 bio gas plants will be built in the villages, as against last year's 24,000, which is a long way from China's annual 2 million plants. Professional masons are being trained to construct the units and trainer course are being run for village masons. The potential of this energy source is demonstrated by an official Rajasthan study that reports that using cow dung, night soil, poultry and pig manure, the state can produce 880.6 million cubic metres of gas which will meet the state's power shortage completely at a far lower capital investment. On solar energy, solar cookers and solar water heaters are beginning to be commercially sold this year. CASE in a study calls attention to the need for developing the country's drought animal power on which two thirds of our people are dependent. It points out that railways carry over 200 million tonnes of freight, road transport vehicles 80 million tonnes, while animal drawn vehicles carry only 10 millions, because of their under utilisation, at being used for 100 days in a year against China's 300 days. A start needs to be made to turn these plans and exhortations to action.

Savings and Investment

I shall begin the savings and investment section by updating and correcting in light of the latest data available, the analytical table on savings and investment given in the last review (p45).
(Turn over to p75 for the table.)

Year	Percentage of GNP Sav-ings	Invest-ment	For-eign flow	Percentage of NNP Sav-ings	Invest-ment	Foreign flow	Percentage of GDP Sav-ings	Invest-ment	Foreign flow	Gross Investment at constant prices	Change	GNP growth	Indu tria grow
	Gross			Net			Gross						
1970-71	17	18	1.0	12.3	13.1	0.8	16.8	17.8	1.0	100	-	6	4.
1971-72										105.2	5.2		
1972-73										98.6	- 6.3		
1973-74													
1974-75	19.1	20.0	0.9	14.6	15.6	1.0	18.2	19.1	0.9	126.4	28.2	1	2
1975-76	20.7	20.6	-0.1	16.1	15.9	-0.2	20.0	19.8	-0.2	114.3	-9.6	9.2	9.
								compound growth rate 1970-71 to 1975-76			3.2		
1976-77	23.0	21.4	-1.6	18.4	16.7	-1.7	21.0	20.4	-0.6	127.3	8.5	1.4	5.
1977-78	21.7	20	-1.7	18.3	17.7	-0.6	21.6	20	-1.6	134.7	6.7	7.4	6.
1978-79	24.6	24.5	-0.1	20.1	19.7	-0.4	23.9	23.7	-0.2	168.9	23.8	3.5	7.
1979-80	22.4	22.9	0.5	17.2	17.8	0.6	21.2	21.8	0.6	147.5	-12.6	4.5	-1.
1980-81	22.2	24.2	2.0	18.3	20.3	2.0	22.5	24.3	1.8	168.1	14.0	7	4.
							compound growth rate 1975-76 to 1980-81				7.4		
1981-82	23.5	24.8	1.3	19.2	21.9	2.7	23.5	24.8	1.3	184	9.8	4.5	8.

Source: Planning Commission
Reserve Bank of India
CSO

The table shows that gross and net savings rose in 1981-82 by 5.5 per cent which the Planning Commission attributes to the significant increase in GDP in 1980-81 and to "the lagged effect on savings of the substantial increase in agricultural output achieved in 1980-81, anticipated improvement in the generation of funds by public sector enterprises as a result of the revision of administered prices, freights and fares, and the various incentives provided on the Budget for 1981-82 to promote savings[36]

The Reserve Bank analysis, while agreeing with the higher contribution to total savings by the Public Sector, points out that household sector savings have actually fallen, in the main due to reduced currency holdings of the households from 1.5 per cent to 0.7 per cent of NNP and similarly to lower deposits from 3.9 per cent to 3.4 per cent of NNP, as households preferred other savings media - as the following table shows:

Net Domestic savings and Investment as percentage of NNP at current prices

	1979-80	1980-81	1981-82
1. Household savings	13.2	14.4	13.9
a) Savings in Financial Assets	6.9	7.3	6.8
2. Public Sector	3.3	3.2	4.6
3. Private corporate sector	0.7	0.7	0.7
4. Total Domestic savings 1+2+3	17.2	18.3	19.2
5. Inflow of foreign resources	0.6	2	2.7
6. Aggregate Investment	17.8	20.3	21.9

Source: Reserve Bank of India[37]

In comparing this table with that given in last year's review (p48), it will be noted that the 1979-80 and even more the 1980-81 data are quite different from those in last year's table, which the Reserve Bank explains as being due to revisions in estimates in NNP and savings and NNP data. In domestic savings, the household sector's share which rose from 75 per cent in 1979-80 to 79 per cent in 1980-81 has declined sharply to 63 per cent in 1981-82. This means that not only has there been a decline in the financial assets of the household sector as noted earlier, there has been a certain amount of dissaving in 1981-82 among householders, caused by the high level of prices which two years of inflation continued into the third year, 1981-82, by the sharp rise in consumers prices.

Aggregate investment increased by over 12 per cent in net terms and by over 5 per cent in gross terms in 1981-82 over the previous year very largely because of the greater inflow of foreign resources as well as because of the increased contribution of the Public Sector.

The relationship or rather the lack of relationship between the high rates of gross savings which characterise the economy since 1975-76 at 20-24 per cent of GNP-GDP and net savings at 18-20 per cent of NNP and the trend rates of GNP growth of 3.5 per cent and industrial growth of 5.6 per cent have been explained in the last two reviews to which I have nothing new to add except in regard to two issues. Incidentally in view of some doubts raised as to the exactness and reliability of the CSO, RBI and Planning Commission estimates of household savings as probably being exaggerated and hence there being no contradiction between our low rate of savings and low industrial and economic growth rates, the government appointed a committee under the chairmanship of Dr.K.N. Raj to examine in depth the methodology, nature and content of the estimates of household savings. That committee has submitted its report to the government which should be released both for parliament and public discussion. I understand that there is no alibi provided by the report for our poor economic-industrial performance.

Part of the clue may be found in the disparity between the time lage and ICOR assumed in the VI Plan and the actuals. The Plan . model is:

Industry	Lag	Use in Plan model	ICOR 1980-85
1. Agriculture	1	3.6093	3.7102
2. Mining and quarying	4	4.8220	4.6664
3. Manufacturing	3	4.2921	5.1602
4. Construction	3	0.2046	0.9338
5. Electricity, gas and water supply	6	25.9969	25.3028
6. Railways	3	6.1566	8.2887

The above gestation lags are unrealistic in terms of actuals, and in any case seem to ignore the lag between investment and output. In the agricultural sector, for instance, the lag in the model is 1 year and ICOR 3.6, which means that 3.6 units of investment will produce 1 agricultural unit in one year. But this is contradicted by irrigation where we have noted time lags of 5 years and more and ICOR of 6-9. Again in manufacturing the lage of 3 years is unrealistic as seen in the Bokaro plant development, the Bhilai expansion, the Heavy Engineering and Fertilisers units. The 6 year lag for electricity is equally unreal. In part these unrealistic projections have led to under investment of the needed volume of investment, which have had to be made up later. It is my hope that the mid term plan review would be used to correct this model, even if it means accepting the wasteful time lags and inefficient ICORs as real facts.

The other element to which attention is drawn is column 5 and 6 in the first table in page 75 where the gross annual investment is expressed in constant prices with 1970-71 as the base. This is somewhat sobering, because it shows that up to 1975-76 investment was increasing at over 3 per cent compound per annum, and between that date and 1979-80 at over 7 per cent compound per annum. Taking the increase in 1981-82 into account, the trend rate of annual/real investment is thus around 7-8 per cent.

The relationship between this real rate of investment (in constant prices) and the rate of investment of current prices which is about double that of the former is an expression of the consequence of and cause for the rate of inflation of investment goods which was referred to earlier in this note. Even at this real rate, there is still the contradiction between the stagnant growth rate and continuing increase in real investment, which leads back to the crucial importance of productivity and efficiency in our agricultural and manufacturing projects, both in completing them on time, and operating them in an optimum manner. In elegant language, the RBI annual report refers to this fact that "inspite of a sustained rise in the rate of investment, the trend growth rate of the economy has not shown change, implying a rising ICOR". Hence the urgency to improve productivity and build new capacity it states.

FOREIGN TRADE

The country's foreign trade, situation continues to be a disturbing one. At the end of June, the government announced the provisional trade deficit for 1981-82 at Rs.5752.01 crores which was the result of increased imports at Rs.13,110.08 crores and lower exports at Rs.7358.07 crores. (In review of the Plan implementation, the Planning Commission speaks of a deficit of Rs.6200 crores in 1981-82 against the deficit of Rs.5800 crores in 1980-81). The commerce ministry's annual report for 1981-82 appears to find comfort in the fact that in 1981-82 the rate of growth of imports was decelerating and that of exports rising. This is only partly true, because a study of the monthly figures it provides shows that these trends apply to the first half of the year, while from October-March the reverse - rising imports growth rate and falling exports growth rate - is recorded. That is one reason why the foreign trade targets for this year, 1982-83, announced by the government in July - of exports at Rs.8650 crores (15 per cent growth) and imports at Rs.14000 crores (5 per cent growth) with the resultant trade deficit of Rs.5350 crores may be in need of revision. Another element of weakness in the export picture is the continued heavy reliance on agricultural

exports which because of their low income elasticity of demand figure more on the side of poor performance than those that did well in 1981-82. But the encouraging growth of manufacturing exports also recorded in 1981-82 faces a sluggish West European and US market with their growing protectionist barriers, so that during the current year, the attainment of the export target will depend on further developing our trade with the socialist countries (which has doubled over the last 3 years) and with the gulf and African countries, where India's share of their total imports is less than 5 per cent. To promote exports, the government has been taking various steps including approval of 130 proposals for setting up 100 per cent export oriented units, liberalising the norms for submission of cost data by exporters for computing their cash compensatory support, reviewing a task force recommendation on promotion of project exports through increased project assistance to engineering service contracts and consultant services, treating Indian construction units as industrial companies, and establishing a separate projects exports council, in addition to various direct tax concessions offered in this year's (1982-83)budget and the growing volume of export credits and guarantees. I have called attention to the misuse of these various incentives, to which should be added the fact that the effect of these incentives on actual expansion of exports needs an item by item review. Because in 1980-81, under 8 items of export incentives, export growth was less than 4 per cent, as against 1981-82 where five of the above items were suppressed, but exports grew by over 15 per cent. The real basis for export growth is not these incentives and concessions (which also back fire as in the case of the US imposing countervailing duties on industrial fasteners and ready made garments), but a growing, expanding efficient and cost competitive economy, manufacturing capital and intermediate, and agro based goods. Against that background only, can some carefully selected incentives and infrastructural facilities like railway services, low shipping freights, warehouse facilities etc. promote exports.

On imports the 1982-83 trends continue to follow the 1981-82 pattern. In the first quarter coking coal, edible oils, steel, chemicals

and non ferrous metals were being imported at high levels and in some cases (edible oils, chemicals and non ferrous metals) above the 1981-82 levels. Crude oil and petroleum product imports continue at a high absolute amount, but the annual aggregate should show some reduction in view of the increased annual production of indigenuous crude. On the imports side, what is needed is a review of the import policy, which the Reserve Bank of India and the Planning Commission are also urging on government. The Reserve Bank suggests a change in import policy to reduce steel, fertilisers, non ferrous metals and other items which can be produced at home. The Planning Commission referring to the significant increase in domestic crude production and stability of international prices of imported oil, recommends reduced imports of the same items as the Reserve Bank adding petroleum to the list. This means that the policy I have been advocating to reverse our so called liberal import policy is also being urged by the two technical agencies of government. Without such a change, our balance of trade deficit will be seriously larger than the official forecast.

The balance of payments deficit is equally disturbing. The government in its statement of policies to IMF states that the current account deficit, for 1982-83 will be Rs.3500 crores which is 2.4 per cent of GDP and which it attributes to the deteriorating terms of trade. For 1981-82 the current account deficit was lower by Rs.400 crores. The increased deficit projected for this year is due to the decline forsees in net receipts from services and transfers by over Rs.600 crores compared to 1981-82, due to higher debt servicing by about half that amount, and fall in remittance and other invisibles for the other half. The Reserve Bank reports that the net foreign exchange assets of the banking sector which declined by Rs.529 crores in 1980-81 (10.7 per cent), further declined by Rs.1592 crores in 1981-82 (37.6 per cent), and between July 1981 and May 1982 its foreign exchange assets declined by Rs.846 crores, standing at Rs.3481 crores. If the two IMF extended credit tranches of Rs.948 crores which were received during this period are added, the decline is Rs.1794 crores. All this means that the government's report crores that foreign exchange reserves have increased marginally from Rs.3354.47/

in 1981-82 to Rs.3384.26 crores at June 28, 1982 does not negate its own projection (and that of IMF) that at the end of this year March 31, 1983, our reserves will stand at less than half of the 1978-79 reserves at Rs.2500 crores - adequate to pay for 2 months imports. In this situation, the rising gross aid reported by the government from Rs.1813.40 crores in 1980-81 to Rs.2227.48 crores in 1981-82 which is set forth in Annex I must allow for (a) the total debt servicing for 1981-82 which it sets at Rs.837.1 crores and (b) the hardening of the terms of the aid from the major source, the IBRD & IDA, which together contribute about 60 per cent of the total, but at interest rates which will now move from 0 to 12-16 per cent. Against this rather sombre background, the liberal resort to the Euro dollar market by some public and a growing number of private sector companies, the details of which are set forth in Annex II, needs review. Without conjuring up the spectre of Poland, Mexico, Argentina and Brazil, the dangers of the country being caught in a similar debt trap need to be taken into consideration in setting policy both with regard to aid - which is a form of concessional loans - and to international capital market loans. The World Bank annual report on IDA at the Annual Toronto Conference utters this warning for India in sombre terms thus "too great a reliance on private capital market could undermine the credit worthiness, it (India) now enjoys".

Employment and Labour Relations

The empirical evidence on the employment - unemployment situation continues to be inadequate and some what confusing. On the one hand, the 1981 census cross checked with the 27th and 28th rounds of NSS shows that the number of workers increased not only with the increased population but at a slightly higher rate, that the proportion of workers in agriculture and the unorganised sector are the same, above 50 per cent for males and above 30 per cent for females, that with the declining share of agriculture in GDP, this constant proportion (higher absolute number) of the rural work force means declining income per worker and increased unemployment and under employment and that the 3 per cent rise in the proportion of urban workers with no increase in the proportion

of non agricultural workers in the country means a fall in the rate of rural industrialisation and consequent lower level of employment[38]. On the other hand, the Planning Commission estimates that the problem of rising unemployment may at last be slowly reversed. This optimistic view that the VI Plan target generation of 34 million standard person years may be attained is based on indicators like growth of GNP, realisation of annual targets by the sectors during 1980-81, and the Employment Exchanges and the Employment Market Information (EMI) data. The latest Employment Exchanges data it reports shows that the rate of increase in the number of job seekers came down to 10.1 per cent in 1981 from 13 per cent in 1980 and 16.1 per cent in 1979. According to EMI, employment in the organised sector increased by 2.7 per cent in 1980-81 against 2 per cent in 1979-80. It also states that the 12 million difference between the 1981 census and the Plan population estimates will not have "any significant impact on labour force projections". (This complacency is unjustified in view of the results of the Post census enumeration check conducted by the Registrar General which shows a higher ommission rate in the 1981 census at 18 per cent than that of 1971 at 16.3 per cent so that the final count of the population in 1981 is 700 millions and net 684 millions.) The Commission admits that the bulk of the employment is in the unorganised sector and states that this sector is generating employment of 800,000 persons a year. Over the VI Plan, the organised sector will provide employment to 4-5 million, so that together the organised and unorganised sector will meet the Plan target of 34 millions standard person years, leaving the self employment schemes (TRYSEM) to provide employment to the back log of 21 million persons. The empirical basis on which the commission has arrived at these conclusions is not known or available, and the evidence available under NREP referred to under the Mid Term Plan review and the actual growth of the work force throw doubts on some of these prognoses.

In June, the union government allotted Rs.90.30 crores out of the year's Rs.190 crores to the state governments for the National Rural Employment Programme for the first 2 quarters of the current year. These amounts are to be matched by the states. 10 per cent of the first 6 months

allocation, Rs.9.03 crores, has been earmarked for scheduled castes and scheduled tribes and another 10 per cent for social forestry. Food grains worth Rs.24.75 crores have also been released to the states under theNREP Programme, comprising 1 lakh tonnes of rice and 50,000 tonnes of wheat.

Employment Exchanges report 1.4 million graduates and 1.35 lakh post graduates seeking jobs or change of jobs at the beginning of 1981. For the country out of 2 million qualified science and technology personnel, 300,000 are unemployed, according to the Science Advisory Committee, and though the brain drain is a small proportion of the unemployed, those going aborad represent high cost talent, For instance the government spends Rs.50,000 on each of the 1250 B Tech students who are admitted each year (the student paying only Rs.200 as annual fees), and India loses to the US for consultancy work 75 per cent of its electronics engineering B Tech and 62 per cent of the chemical engineering group. The problem that is faced is that the migrants are over qualified for the domestic jobs because of the poor state of the country's R & D. What is needed is to raise our R & D level and change the relations between research labs, technical institutions and industrial establishments, with, and above all, industry growing much faster to keep the scientists working at home.

A NCAER study released in 1981[39] shows that tractors are used not only by large farmers but by small and medium farmers who buy or hire tractors because they find it cheaper than employing draught animals and earn an additional income. Regarding the impact of tractor use on agricultural employment, the study notes that in all states the per hectare employment of hired labour is higher in tractorised farms. Tractorised farms employ less labour in operations where a tractor is used but more labour in operations where a tractor is not used. In some states, the additional labour used in operations not involving the tractor more than compensates the lesser employment where the tractor is used and in other states there is a net decline in employment. However in all cases, there is a decline in the proportion of family labour,

especially of women and children, and their increased substitution by hired labour.

On the labour relations side, the working group formed by the union government to examine the enactment of legislation for the protection of agricultural labour failed to reach agreement mainly because of the differing views expressed by the states. The proposal has a history. The central standing committee on rural unroganised labour prepared a draft law in July 1980 which covered the payment of minimum wages, security of employment, social security measures to be ensured through the setting up of an agricultural workers welfare fund, regulation of working hours, setting up of tripartite tribunals to settle disputes and claims, a clause defining trade unions, and the setting up of a statutory employment guarantee board to provide alternative employment. After obtaining the views of state governments, a year later in August 1981, a conference of state governments was convened, which could not agree on the draft legislation proposed. It set up the above working group. So the dead lock continues. Labour legislation enacted during the year included the amendment of the Industrial Disputes Act in April 1982 and the Payment of Wages (Amendment) Bill in August 1982.

The government reported to parliament that a total of 26.46 million mandays were lost due to strikes and lock outs during 1981 compared to 21.93 million man days lost in 1980. The estimated production loss due to strikes and lockouts during the 3 years 1979 to 1981 it estimates at Rs.737.27 crores, and a further Rs.62.88 crores during January-May 1982. In the first 5 months of 1982, January-May 7.7 million days were lost in strikes and lock outs according to provisional official figures.

<u>Revised Twenty Point Programme</u>

On January 14, 1982 the government announced a revised 20 point programme with the emphasis on the social objectives of the Sixth Plan. In a sense, it was an anticipation of the Third Annual Plan, 1982-83, which expanded sizeably in real terms the investment in power, and to a lesser extent in transport and irrigation, as noted

under the Mid Term Plan review, with the result that the anti-poverty and social programmes have had to take a back seat, including, in some cases, not even being provided with extra resources needed to neutralise the 10 per cent inflation which took place last year. The programme announced was as follows:

1. Increase irrigation potential, develop and disseminate technologies and inputs for dry land agriculture.

2. Take special efforts to increase production of pulses and vegetable oilseeds.

3. Strengthen and expand coverage of Integrated Rural Development and National Rural Employment Programmes.

4. Implement agricultural land ceilings, distribute surplus land and complete compilation of land records by removing all administrative and legal obstacles.

5. Review and effectively enforce minimum wages for agricultural labour.

6. Rehabilitate bonded labour.

7. Accelerate programmes for the development of Scheduled Castes and Tribes.

8. Supply drinking water to all problem villages.

9. Allot house sites to rural families who are without them and expand programmes for construction assistance to them.

10. Improve the environment of slums, implement programme of house-building for economically weaker sections, and take measures to arrest unwarranted increase in land prices.

11. Maximise power generation, improve the functioning of electricity authorities and electrify all villages.

12. Pursue vigorously programmes of afforestation, social and farm forestry and the development of bio-gas and other alternative energy sources.

13. Promote family planning on a voluntary basis as a people's movement.

14. Substantially augment universal primary health care facilities and control of leprosy, tuberculosis and blindness.

15. Accelerate programmes of welfare for women and children and nutrition programmes for pregnant women, nursing mothers and childre, specially in tribal, hill and backward areas.

16. Spread universal elementary education for the age group 6-14 with special emphasis on girls, and simultaneously involve students and voluntary agencies in programmes for the removal of adult illiteracy.

17. Expand public distribution system through more fair price shops, including mobile shops in far-flung areas and shops to cater to industrial ~~weekrs~~ workers, students hostels, and make available to students text-books and exercise books on a priority basis and to promote a strong consumer protection movement.

18. Liberalise investment procedures and streamline industrial policies to ensure timely completion of projects; give handicrafts, handlooms, small and village industries all facilities to grow and update their technology.

19. Continue strict action against smugglers, hoarders and tax evaders and check black money.

20. Improve the working of the public enterprises by increasing efficiency, capacity utilisation and the generation of internal resources.

The Annual Plan for 1982-83 has a chapter on this revised 20 point programme (chapter 20). The financial allocations for this important set of programme is a total of Rs.8374.50 crores divided into Rs.2135.02 crores from the union government and Rs.6239.48 crores from the state government. For IRDP and NREP Rs.748.83 crores are allocated, for land reforms Rs.58.49 crores, for minimum wages for agricultural labour Rs.0.69 crores, for rehabilitation of bonded labourer Rs.5.14 crores, for public distribution system Rs.0.35 crores and for slum improvement Rs.27.67 crores. These small and limited allocations give the impression that the government is not taking this programme seriously. Equally important is the implementation machinery which is generally geared to serve the advanced states and well to do sectors of society. Thus the last review of the total concessional finance extended by the term lending institutions upto March 31, 1979 by the Programme Evaluation Organisation of the Planning Commission finds that the relatively advanced states like Maharashtra, Tamil Nadu and Karnataka have benefited to the extent of 31 per cent of total disbursements, and that large units with investments of above Rs.50 lakhs accounted for 53.3 per cent of the subsidy, while small units with less than 10 lakhs investment were granted less than 21 per cent of the total. Even with the limited allocations, the impact of the twenty point programme will depend on turning our implementation around to serve the poor majority and backward groups and regions.

Annex I

Aid as reported by government

Country/Institution	1981-82 (Actuals)	1982-83 (Estimates)
	(Rs. crores)	
Austria	3.99	3.48
Belgium	7.14	4.80
Canada	28.57	41.80
Denmark	6.79	6.30
F.R.Germany	109.49	126.61
France	37.31	32.20
Italy	-	10.19
Japan	35.74	103.01
Netherlands	103.57	89.52
U.K.	202.85	88.50
U.S.A.	73.11	131.21
I.B.R.D.	296.16	290.97
I.D.A.	692.92	912.83
I.F.A.D.	12.32	23.15
EEC (Special Action Credit)	-	-
Switzerland	6.49	1.54
Sweden	33.62	35.90
U.A.E.	-	-
Kuwait Fund	15.07	58.46
Saudi Fund	5.98	5.75
O.P. E.C.	8.95	13.58
Czechoslovakia	-	1.00
U.S.S.R.	22.59	100.00
EEC (Grants)	28.90	46.30
Total	1729.56	2127.10
Cash Grants of other Ministries	11.49	18.92
Food Assistance	45.00	45.80
Others	27.35	35.66
Total	83.84	100.38
Grand total	1813.40	227.48

Source: Statement to Parliament, July 28, 1982

Annex II

Loans from Euro-dollar Market Approved by Government of India: 1981 - 82 and 1982-83 April - July

Company	Amount (Rs. crores)
Imports of Capital Goods	631.09
NALCO (Import of capital goods & services)	601.12
Reliance Textiles Industries Ltd.	9.89
Ballarpur Industries Ltd.	6.45
Kothari (Madras) Ltd.	5.27
Gujarat Alkalies & Chemicals Ltd	4.41
The Raymond Woollen Mills Ltd.	2.34
Hindustan Development Corpora tion	1.61
Financial Institutions	89.74
ICICI, Bombay	67.64
IDBI, Bombay	22.10
Purchase of Ships	84.40
Larsen & Toubro L td.	25.89
Ballarpur Industries Ltd.	11.94
Texmaco Ltd.	11.86
Jay Shree Tea and Industries	9.96
Ratnakar Shipping Co.Ltd.	7.60
Bhorika Steel Ltd.	6.29
Ballarpur Industries Ltd.	3.42
Easar Bulk Carriers Ltd.	2.29
Universal Shipping Co.	1.26
Dura Steamship Pvt. Ltd.	0.98
Hauers Lines Pvt. Ltd.	0.85
Aryan Shipping Pvt. Ltd.	0.73
Besto Shipping Ltd.	0.72
B. Ghosh & Co. Ltd.	0.61
Hotels in Delhi	33.57
Pure Drinks	14.77
Asian Hotels	11.00
Surya International Hotel	4.75
Siddarth Hotel	3.05
Purchase of Aircrafts	68.69
Indian Airlines	68.69
Exploration & Development Programme	26.89
ONGC	26.89
Thal Vaishet Complex Import Requirements	95.78
Rashtriya Chemicals & Fertilizers	95.78
Total	1,030.16

Loans from Euro-dollar Market Approved by Government of India in 1982-83

April to June 1982

Infrastructures	**Rs. crores**
Super thermal station	93
HUDCO	25
Financial Institutes	
ICICI	8
Bank of Baroda	24
Imports of capital goods	
Ashok Leyland	32
ONGC	130
Century Spinning	5.5
Orissa Mining	1.4
Total	318.9

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